

OptimumBank Holdings, Inc.
Form 10-Q
November 12, 2014

**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, 2014

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
(State or other jurisdiction of incorporation or organization)

55-0865043
(IRS Employer
Identification No.)

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

954-900-2800

(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 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 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

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,295,972 shares of Common Stock, \$.01 par value, issued and outstanding as of November 13, 2014.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Condensed Consolidated Balance Sheets****(Dollars in thousands, except per share amounts)**

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	\$ 5,839	\$5,451
Interest-bearing deposits with banks	2,930	8,430
Total cash and cash equivalents	8,769	13,881
Securities available for sale	28,488	22,990
Loans, net of allowance for loan losses of \$2,241 and \$2,211	75,725	79,249
Federal Home Loan Bank stock	1,139	1,196
Premises and equipment, net	2,820	2,879
Foreclosed real estate, net	4,970	7,553
Accrued interest receivable	447	496
Other assets	475	539
Total assets	\$ 122,833	\$ 128,783
Liabilities and Stockholders' Equity (Deficit)		
Liabilities:		
Noninterest-bearing demand deposits	6,680	3,775
Savings, NOW and money-market deposits	26,625	30,801
Time deposits	55,818	64,116
Total deposits	89,123	98,692
Federal Home Loan Bank advances	22,740	22,740
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	849	315

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Official checks	171	344
Other liabilities	1,721	1,753
Total liabilities	119,759	128,999
Stockholders' equity (deficit):		
Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value; 50,000,000 shares authorized 9,295,972 and 8,011,077 shares issued and outstanding in 2014 and 2013	93	80
Additional paid-in capital	32,952	31,463
Accumulated deficit	(30,169)	(31,763)
Accumulated other comprehensive income	198	4
Total stockholders' equity (deficit)	3,074	(216)
Total liabilities and stockholders' equity (deficit)	\$ 122,833	\$ 128,783

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Operations (Unaudited)****(In thousands, except per share amounts)**

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Interest income:				
Loans	\$951	\$1,074	\$3,449	\$3,235
Securities	250	196	776	571
Other	26	16	53	48
Total interest income	1,227	1,286	4,278	3,854
Interest expense:				
Deposits	154	201	512	649
Borrowings	63	231	185	876
Total interest expense	217	432	697	1,525
Net interest income	1,010	854	3,581	2,329
Provision for loan losses	—	—	—	2,194
Net interest income after provision for loan losses	1,010	854	3,581	135
Noninterest income:				
Service charges and fees	18	25	104	80
Gain/(Loss) on sale of securities	2	(20)	2	(20)
Other	—	1	108	22
Total noninterest income	20	6	214	82
Noninterest expenses:				
Salaries and employee benefits	485	497	1,505	1,556
Occupancy and equipment	131	135	384	400
Data processing	73	76	234	227
Professional fees	205	197	549	746
Insurance	36	79	107	237
Foreclosed real estate	47	13	(752)	989
Regulatory assessment	91	84	308	254
Other	41	95	(134)	187

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Total noninterest expenses	1,109	1,176	2,201	4,596
Other-than-temporary impairment on securities:				
Total other-than-temporary impairment losses	—	9	—	362
Portion of losses recognized in other comprehensive income	—	—	—	—
Net impairment loss	—	9	—	362
Net (loss)/earnings	\$(79)	\$(325)	\$1,594	\$(4,741)
Net (loss)/earnings per share:				
Basic	\$(.01)	\$(.05)	\$.19	\$(.60)
Diluted	\$(.01)	\$(.05)	\$.19	\$(.60)
Dividends per share	\$—	\$—	\$—	\$—

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)****(In thousands)**

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2013	
Net earnings (loss)	\$(79)	\$(325)	\$1,594	\$(4,741)
Other comprehensive income (loss)-				
Unrealized (loss) gains on securities available for sale:				
Unrealized gain arising during the period	(57)	(36)	314	198
Other-than-temporary impairment on securities	—	(9)	—	(362)
Unrealized holding gains (losses) arising during period	(57)	(45)	314	(164)
Deferred income taxes on above change	—	—	120	—
Total other comprehensive income (loss)	(57)	(45)	194	(164)
Comprehensive income (loss)	\$(136)	\$(370)	\$1,788	\$(4,905)

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Stockholders' Equity (Deficit)****Nine Months Ended September 30, 2014 and 2013****(Dollars in thousands)**

	Common Shares	Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Compre- hensive Income	Total Stockholders' Equity (Deficit)
Balance at December 31, 2012	7,864,887	\$ 79	31,293	(24,688)	226	6,910
Proceeds from sale of common stock (unaudited)	83,333	1	99	—	—	100
Common stock issued as compensation to directors (unaudited)	33,974	—	35	—	—	35
Net loss for the nine months ended September 30, 2013 (unaudited)	—	—	—	(4,741)	—	(4,741)
Net change in unrealized loss on securities available for sale (unaudited)	—	—	—	—	(164)	(164)
Balance at September 30, 2013 (unaudited)	7,982,194	\$ 80	31,427	(29,429)	62	2,140
Balance at December 31, 2013	8,011,077	\$ 80	31,463	(31,763)	4	(216)
Proceeds from sale of common stock (unaudited)	1,092,719	10	1,259	—	—	1,269
Common stock issued as compensation to directors (unaudited)	192,176	3	230	—	—	233
Net earnings for the nine months ended September 30, 2014 (unaudited)	—	—	—	1,594	—	1,594
Net change in unrealized gain on securities available for sale (unaudited)	—	—	—	—	194	194

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Balance at September 30, 2014 (unaudited)	9,295,972	\$ 93	32,952	(30,169)	198	3,074
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See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net earnings (loss)	\$1,594	(4,741)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	134	149
Provision for loan losses	—	2,194
(Gain) Loss on sale of securities	(2)	20
Common stock issued as compensation to directors	233	35
Net amortization of fees, premiums and discounts	345	40
Decrease (increase) in other assets	64	(23)
(Gain) loss on sale of foreclosed real estate	(809)	135
Provision for losses on foreclosed real estate	9	724
Write-down of foreclosed real estate	150	—
Decrease (increase) in accrued interest receivable	49	(14)
(Decrease) increase in official checks and other liabilities	(325)	156
Other-than-temporary impairment of securities available for sale	—	362
Net cash provided by (used in) operating activities	1,442	(963)
Cash flows from investing activities:		
Principal repayments and maturity of securities available for sale	3,101	6,618
Proceeds from sale of securities available for sale	3,645	1,965
Purchase of securities available for sale	(12,273)	(14,239)
Net decrease in loans	2,791	228
Purchase of premises and equipment	(75)	(156)
Proceeds from sale of foreclosed real estate, net	3,966	2,942
Redemption of Federal Home Loan Bank stock	57	396
Net cash provided by (used in) investing activities	1,212	(2,246)
Cash flows from financing activities:		
Net decrease in deposits	(9,569)	(4,318)
Increase in advance payments by borrowers for taxes and insurance	534	507
Repayment of Federal Home Loan Bank advances	—	(7,500)
Proceeds from sale of common stock	1,269	100
Net cash used in financing activities	(7,766)	(11,211)

Net decrease in cash and cash equivalents	(5,112)	(14,420)
Cash and cash equivalents at beginning of the period	13,881	23,611
Cash and cash equivalents at end of the period	\$8,769	9,191

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Nine Months Ended September 30, 2014 2013	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$580	\$1,483
Income taxes	\$—	\$—
Noncash investing and financing activities:		
Change in accumulated other comprehensive income, net change in unrealized loss on securities available for sale	\$194	\$(164)
Loans transferred to foreclosed real estate	\$733	\$697

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

General. OptimumBank Holdings, Inc. (the "Holding Company") is a one-bank holding company and owns 100% of OptimumBank (the "Bank"), a Florida-chartered commercial bank. The Bank's wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC, OB Real Estate Holding 1503, LLC, OB Real Estate Holdings 1645, OB Real Estate Holdings 1616, OB Real Estate Holdings 1710, OB Real Estate Holdings 1692, and OB Real Estate Holdings 1704 (the "Real Estate Holding Subsidiaries"). The Holding Company's only (1) 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 commercial banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. The Real Estate Holding Subsidiaries are primarily engaged in holding and disposing of foreclosed real estate. OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holdings 1503, LLC had no activity in 2014 or 2013.

In the opinion of the 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 September 30, 2014, and the results of operations for the three- and nine-months periods ended September 30, 2014 and 2013, and cash flows for the nine-months periods ended September 30, 2014 and 2013. The results of operations for the three- and nine-months ended September 30, 2014, are not necessarily indicative of the results to be expected for the full year.

Going Concern Status. The Company has deferred interest payments with respect to its Junior Subordinated Debenture for the maximum allowable twenty consecutive quarterly payments. Accrued and unpaid interest totaled \$753,000 at September 30, 2014. As discussed in note (9) the Company is not able to make these interest payments without the prior approval of the Federal Reserve Bank of Atlanta. Regulatory approval to pay said accrued and unpaid interest has been denied. The holder of the Junior Subordinated Debenture can accelerate the \$5,155,000 principal balance due at September 30, 2014 as a result of this technical default. As of the date of this Quarterly Report on Form 10-Q, management has not received notice of a default.

In prior years, the Company suffered losses from operations and continuing high levels of noninterest expenses. The Bank is subject to a Consent Order which requires the maintenance at a 12% total risk-based capital ratio. At September 30, 2014, the Bank's total risk-based capital ratio of 10.46% is below the 12% level required by the Consent Order. As of September 30, 2014, the Bank needed approximately \$1.4 million in additional capital to comply with the 12% total risk-based capital requirement of the Consent Order. The Company has taken certain actions which are expected to increase operating profits and improve capital ratios as follows:

The Company has identified certain structural or contract related expenses that previously adversely impacted the Company's ability to achieve core operational profitability. These were (i) \$20 million in long term Federal Home Loan Bank Advances with above market interest rates that were extinguished in December 2013 and replaced with lower interest rate advances. As a result of this restructuring, borrowing interest expense in 2014 and through the maturity of the new advances will be reduced annually by approximately \$1.1 million; (ii) The Company's Directors and Officers insurance was replaced with a policy from another insurance carrier. Annual expected savings totaling approximately \$130,000 with no change in deductible or areas covered; and (iii) The contract for core system processing is also being reviewed with additional savings anticipated. In addition, as part of the

Company's strategic planning process, other initiatives are being developed to achieve branch and operational efficiencies.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) *General, Continued.*

Going Concern Status, Continued. The Company has sold 1,092,719 shares of common stock for an aggregate amount of \$1.3 million during the nine month period ended September 30, 2014. The Company is in the process of raising additional capital. If successful, this effort will raise between \$3 million and \$4 million in common shares to both existing and new investors. A formal plan, including necessary shareholder approval, to achieve the 8% and 12% targets was completed in the second quarter of 2014. However, there can be no assurance that the Company will be successful in its efforts to raise capital.

Management continues to forecast the Company to be profitable for 2014 unless it incurs unforeseen loan loss provisions. Management has considered these factors in evaluating the Company's ability to continue as a going concern and believes the Company will be able to meet all of its financial obligations and continue to operate as a going concern at least through September 30, 2015.

Comprehensive Income (Loss). Generally accepted accounting principles generally require that recognized revenue, expenses, gains and losses be included in net earnings (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 earnings (loss), are components of comprehensive income (loss). The only component of other comprehensive income (loss) is the net change in the unrealized gain on the securities available for sale.

Income Taxes. The Company assessed its earnings history and trends and its estimate of future earnings, and determined that the deferred tax asset could not be realized at September 30, 2014. Accordingly, a valuation allowance was recorded against the net deferred tax asset. However, management will evaluate the Company's projected future taxable income at each quarter end and believes sufficient taxable income to allow for reversal of the valuation allowance may occur in 2015

Recent Accounting Standards Update. In January 2014, the Financial Accounting Standards Board ("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*, which is intended to clarify 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 should be derecognized and the real estate recognized. These amendments clarify that when in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for the Company beginning January 1, 2015. The adoption of ASU 2014-04 is not expected to impact the Company's Consolidated Financial Statements.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) *General, Continued.*

Recent Accounting Standards Update, Continued. In June 2014, FASB issued ASU 2014-11, *Transfers and Servicing - Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. ASU 2014-11 requires, among other things, two accounting changes. First, the amendments in this update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. Second, for repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. ASU 2014-11 is effective for the first interim or annual period beginning after December 15, 2014. The adoption of this guidance is not expected to have any impact on the Company's consolidated financial statements.

In June 2014, FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*. ASU 2014-12 requires, among other things, that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. ASU 2014-12 is effective for annual reporting periods beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have any impact on the Company's consolidated financial statements.

Recent Regulatory Developments

Basel III Legislation. On July 2, 2013, the Federal Reserve Board ("FRB") approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier I capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier I capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the Federal Deposit Insurance Corporation ("FDIC") also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules will begin for the Company on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. The Company is currently evaluating the provisions of the final rules and their expected impact.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**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
Securities Available for Sale:				
At September 30, 2014:				
Mortgage-backed securities	\$ 10,079	\$ 258	\$ (31)	\$ 10,306
U.S. Government and agency securities	18,091	147	(56)	18,182
	\$ 28,170	\$ 405	\$ (87)	\$ 28,488
At December 31, 2013:				
Mortgage-backed securities	\$ 10,425	\$ 269	\$ (69)	\$ 10,625
U.S. Government and agency securities	12,561	37	(233)	12,365
	\$ 22,986	\$ 306	\$ (302)	\$ 22,990

The amortized cost and carrying value of securities at September 30, 2014 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without prepayment penalties. Securities not due at a single maturity date are shown separately (in thousands):

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in ten years or more	\$ 18,091	18,182
Mortgage-backed securities	10,079	10,306
	\$ 28,170	\$ 28,488

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

Securities, Continued. Securities with gross unrealized losses at September 30, 2014, aggregated by investment (2) category and length of time that individual securities have been in a continuous loss position, are as follows (in thousands):

	Over Twelve Months	Less Than Twelve Months	Gross Unrealized Losses	Gross Unrealized Losses
	Value	Value	Value	Value
Securities Available for Sale:				
Mortgage-backed securities	\$(20) \$1,337	\$(11) \$3,146		
U.S. Government and agency securities	(41) 1,727	(15) 4,427		
	\$(61) \$3,064	\$(26) \$7,573		

The unrealized losses on 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.

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.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

Securities, Continued. In evaluating mortgage-backed securities with unrealized losses, 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.

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

	At September 30, 2014	At December 31, 2013
Residential real estate	\$ 21,612	\$ 26,468
Multi-family real estate	3,509	3,605
Commercial real estate	31,590	27,883
Land and construction	6,206	6,459
Commercial	14,801	16,584
Consumer	20	81
Total loans	77,738	81,080
Add (deduct):		
Net deferred loan fees, costs and premiums	228	380
Allowance for loan losses	(2,241)	(2,211)
Loans, net	\$ 75,725	\$ 79,249

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (unaudited), Continued****(3) Loans, Continued.**

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	Unallocated	Total
Three Months Ended September 30, 2014:								
Beginning balance	\$ 55	\$ 7	\$ 1,270	\$ 432	\$ 66	\$ —	\$ 408	\$ 2,238
Provision (credit) for loan losses	(42)	(4)	331	(368)	(57)	(3)	143	—
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	3	—	3
Ending balance	\$ 13	\$ 3	\$ 1,601	\$ 64	\$ 9	\$ —	\$ 551	\$ 2,241
Nine Months Ended September 30, 2014:								
Beginning balance	\$ 49	\$ 4	\$ 934	\$ 458	\$ 61	\$ —	\$ 705	\$ 2,211
Provision (credit) for loan losses	(56)	(1)	667	(394)	(52)	(10)	(154)	—
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	20	—	—	—	—	10	—	30
Ending balance	\$ 13	\$ 3	\$ 1,601	\$ 64	\$ 9	\$ —	\$ 551	\$ 2,241
Three Months Ended September 30, 2013:								
Beginning balance	\$ 342	\$ 16	\$ 1,910	\$ 40	\$ 279	\$ —	\$ —	\$ 2,587
Provision (credit) for loan losses	(210)	—	(143)	(250)	(21)	(3)	627	—
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	107	227	—	3	—	337
Ending balance	\$ 132	\$ 16	\$ 1,874	\$ 17	\$ 258	\$ —	\$ 627	\$ 2,924
Nine Months Ended September 30, 2013:								
Beginning balance	\$ 434	\$ 267	\$ 1,372	\$ 166	\$ 216	\$ 4	\$ —	\$ 2,459
Provision (credit) for loan losses	(205)	(251)	2,442	(448)	42	(13)	627	2,194
Charge-offs	(97)	—	(2,147)	—	—	—	—	(2,244)
Recoveries	—	—	207	299	—	9	—	515

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Ending balance	\$ 132	\$ 16	\$ 1,874	\$ 17	\$ 258	\$ 0	\$ 627	\$2,924
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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (unaudited), Continued****(3) Loans, Continued.**

	Residential Real Estate	Multi- Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Unallocated	Total
At September 30, 2014:								
Individually evaluated for impairment:								
Recorded investment	\$ 4,895	\$ —	\$ 4,121	\$ —	\$ 1,167	\$ —	\$ —	\$ 10,183
Balance in allowance for loan losses	\$ —	\$ —	\$ 17	\$ —	\$ —	\$ —	\$ —	\$ 17
Collectively evaluated for impairment:								
Recorded investment	\$ 16,717	\$ 3,509	\$ 27,469	\$ 6,206	\$ 13,634	\$ 20	\$ —	\$ 67,555
Balance in allowance for loan losses	\$ 13	\$ 3	\$ 1,601	\$ 47	\$ 9	\$ —	\$ 551	\$ 2,224
At December 31, 2013:								
Individually evaluated for impairment:								
Recorded investment	\$ 7,100	\$ —	\$ 5,227	\$ —	\$ 1,216	\$ —	\$ —	\$ 13,543
Balance in allowance for loan losses	\$ —	\$ —	\$ 192	\$ —	\$ —	\$ —	\$ —	\$ 192
Collectively evaluated for impairment:								
Recorded investment	\$ 19,368	\$ 3,605	\$ 22,656	\$ 6,459	\$ 15,368	\$ 81	\$ —	\$ 67,537
Balance in allowance for loan losses	\$ 49	\$ 4	\$ 742	\$ 458	\$ 61	\$ —	\$ 705	\$ 2,019

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

Loans, Continued. The Company has divided the loan portfolio into six portfolio segments and classes, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten in accordance with written policies set forth and approved by the Board of Directors ("Board"). The portfolio segments and classes identified by the Company are as follows:

Residential Real Estate, Multi-Family Real Estate, Commercial Real Estate, Land and Construction. Residential real estate loans are underwritten based on 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 on 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. Land 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. Land 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 SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3)Loans, Continued.

Commercial. 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. 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.

The following summarizes the loan credit quality (in thousands):

	Pass	Other Loans Especially Mentioned	Substandard	Doubtful	Loss	Total
At September 30, 2014:						
Residential real estate	\$ 15,445	\$ —	\$ 6,167	\$ —	\$ —	\$ 21,612
Multi-family real estate	3,509	—	—	—	—	3,509
Commercial real estate	28,713	609	2,268	—	—	31,590
Land and construction	4,255	1,951	—	—	—	6,206
Commercial	10,535	—	4,266	—	—	14,801
Consumer	20	—	—	—	—	20
Total	\$62,477	\$ 2,560	\$ 12,701	\$ —	\$ —	\$ 77,738
At December 31, 2013:						
Residential real estate	\$ 18,260	\$ 1,290	\$ 6,918	\$ —	\$ —	\$ 26,468
Multi-family real estate	3,605	—	—	—	—	3,605
Commercial real estate	18,544	2,539	6,800	—	—	27,883
Land and construction	4,493	1,966	—	—	—	6,459
Commercial	13,056	546	2,982	—	—	16,584

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Consumer	81	—	—	—	—	81
Total	\$58,039	\$ 6,341	\$ 16,700	\$ —	\$ —	\$81,080

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

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.

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.

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 SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

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

	Accruing Loans			Total Past Due	Current	Nonaccrual Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due				
At September 30, 2014:							
Residential real estate	\$ 1,272	\$ —	\$ —	\$—	\$ 18,199	\$ 2,141	\$ 21,612
Multi-family real estate	—	—	—	—	3,509	—	3,509
Commercial real estate	—	—	—	—	30,517	1,073	31,590
Land and construction	—	—	—	—	6,206	—	6,206
Commercial	—	—	—	—	13,634	1,167	14,801
Consumer	—	—	—	—	20	—	20
Total	\$ 1,272	\$ —	\$ —	\$—	\$ 72,085	\$ 4,381	\$ 77,738
At December 31, 2013:							
Residential real estate	\$ 1,290	\$ —	\$ —	\$ 1,290	\$ 20,895	\$ 4,283	\$ 26,468
Multi-family real estate	—	—	—	—	3,605	—	3,605
Commercial real estate	—	—	—	—	24,565	3,318	27,883
Land and construction	—	—	—	—	6,459	—	6,459
Commercial	281	—	—	281	15,087	1,216	16,584
Consumer	—	—	—	—	81	—	81
Total	\$ 1,571	\$ —	\$ —	\$ 1,571	\$ 70,692	\$ 8,817	\$ 81,080

The following summarizes the amount of impaired loans (in thousands):

	At September 30, 2014			At December 31, 2013		
	Unpaid Recorded Investmen	Principal Balance	Related Allowance	Unpaid Recorded Investmen	Principal Balance	Related Allowance
With no related allowance recorded:						
Residential real estate	\$ 4,895	\$ 5,402	\$ —	\$ 7,100	\$ 7,607	\$ —
Commercial real estate	4,121	5,935	—	4,128	4,534	—
Commercial	1,167	1,409	—	1,216	1,458	—

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With an allowance recorded-						
Commercial real estate	\$—	\$—	\$ 17	\$1,099	\$2,913	\$ 192
Total:						
Residential real estate	\$4,895	\$5,402	\$ —	\$7,100	\$7,607	\$ —
Commercial real estate	\$4,121	\$5,935	\$ 17	\$5,227	\$7,447	\$ 192
Commercial	\$1,167	\$1,409	\$ —	\$1,216	\$1,458	\$ —
Total	\$10,183	\$12,746	\$ 17	\$13,543	\$16,512	\$ 192

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) **Loans, Continued.** The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	Three Months Ended September 30,					
	2014			2013		
	Average Investment	Interest Recognized	Interest Received	Average Investment	Interest Recognized	Interest Received
Residential real estate	\$4,914	\$ 35	\$ 62	\$7,176	\$ 56	\$ 268
Commercial real estate	\$5,534	\$ 58	\$ 81	\$8,770	\$ 15	\$ 109
Land and construction	\$—	\$ —	\$ —	\$206	\$ —	\$ 11
Commercial	\$1,173	\$ —	\$ 16	\$—	\$ —	\$ —
Total	\$11,621	\$ 93	\$ 159	\$16,152	\$ 71	\$ 388

	Nine Months Ended September 30,					
	2014			2013		
	Average Investment	Interest Recognized	Interest Received	Average Investment	Interest Recognized	Interest Received
Residential real estate	\$6,334	\$ 386	\$ 259	\$7,335	\$ 208	\$ 487
Commercial real estate	\$4,544	\$ 196	\$ 140	\$9,743	\$ 15	\$ 222
Land and construction	\$—	\$ —	\$ —	\$545	\$ —	\$ 37
Commercial	\$1,344	\$ —	\$ 49	\$—	\$ —	\$ —
Total	\$12,222	\$ 582	\$ 448	\$17,623	\$ 223	\$ 746

No loans have been determined to be troubled debt restructurings during the nine months ended September 30, 2014 or 2013.

(4) **Regulatory Capital.** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at September 30, 2014 of the regulatory capital requirements and the Bank's capital on a percentage basis:

	Bank	Consent Order Regulatory Requirement		
Tier I capital to total average assets	6.65 %	8.00 %		
Tier I capital to risk-weighted assets	9.20 %	N/A		
Total capital to risk-weighted assets	10.46 %	12.00 %		

At September 30, 2014, the Bank is adequately capitalized. As a result of the Consent Order discussed in Note 10, the Bank cannot be categorized higher than "adequately capitalized" until the Consent Order is lifted, even if its ratios were to exceed those required to be a "well capitalized" bank.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

Earnings (Loss) Per Share. Basic earnings (loss) per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. For 2013, and the three months ended September 30, 2014, basic and diluted loss per share is the same due to the net loss incurred by the (5) Company. For the nine months ended September 30, 2014, basic and diluted earnings per share are the same because stock options outstanding during the period were not dilutive due to their exercise prices exceeding the fair value of the Company's common stock during the period. Earnings (loss) per common share have been computed based on the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted-average number of common shares outstanding used to calculate basic and diluted earnings (loss) per common share	9,152,860	7,212,486	8,470,459	7,889,214

Stock-Based Compensation. On December 27, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan ("2011 Plan"). A total of 315,803 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 (6) Plan under which bonus shares issuable under the 2011 Plan may be earned as compensation to outside directors. During the nine months ended September 30, 2014, 192,176 shares of stock valued at approximately \$233,000 have been earned under the 2011 Plan and Non-Employee Director Compensation Plan as compensation to outside directors. During the nine months ended September 30, 2013, 20,823 shares of common stock valued at approximately \$35,000 were earned under the 2011 Plan and Non-Employees Director Compensation Plan as compensation to outside directors.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

Stock-Based Compensation, Continued. The Company's prior stock option plan terminated on February 27, 2011. (6) At September 30, 2014, 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 Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	3,040	145.12		
Expired June 30, 2014	(1,596)	145.12		
Outstanding and exercisable at September 30, 2014	1,444	\$ 145.12	1.3 years	\$ —

(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			
	Quoted Prices			
	In Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	
	Fair Value	Significant Unobservable Inputs (Level 3)		
As of September 30, 2014:				
Mortgage-backed securities	\$ 10,306	\$ —	\$ 10,306	\$ —
U.S. Government and agency securities	18,182	—	18,182	—
	\$ 28,488	\$ —	\$ 28,488	\$ —

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As of December 31, 2013:

Mortgage-backed securities	\$ 10,625	\$—	\$ 10,625	\$	—
U.S. Government and agency securities	12,365	—	12,365		—
	\$22,990	\$—	\$ 22,990	\$	—

There were no transfers of securities between levels of inputs for the nine months ended September 30, 2014.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) *Fair Value Measurements, Continued.* Assets measured at fair value on a nonrecurring basis are as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations
At September 30, 2014:						
Residential real estate	\$ 1,413	\$ —	\$ —	\$ 1,413	\$ 507	\$ —
Commercial real estate	2,952	—	—	2,952	3,269	—
Commercial	1,167	—	—	1,167	242	—
				&n		