OptimumBank Holdings, Inc.
Form 10-Q
November 13, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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	**55-0865043**
(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)

954-900-2800

(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 [X] 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 [X] 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" and "emerging growth 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 [X]
Emerging Growth Company [ ]		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,103,447 shares of Common Stock, $.01 par value, issued and outstanding as of November 13, 2017.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets:		
Cash and due from banks	$ 18,330	$ 17,563
Interest-bearing deposits with banks	184	77
Total cash and cash equivalents	18,514	17,640
Securities available for sale	16,199	20,222
Loans, net of allowance for loan losses of $3,903 and $3,915	69,194	76,999
Federal Home Loan Bank stock	979	1,113
Premises and equipment, net	2,601	2,648
Accrued interest receivable	366	380
Other assets	619	701
Total assets	$ 108,472	$ 119,703
Liabilities and Stockholders' Equity:		
Liabilities:		
Noninterest-bearing demand deposits	8,813	7,131
Savings, NOW and money-market deposits	21,705	22,153
Time deposits	46,856	56,725
Total deposits	77,374	86,009
Federal Home Loan Bank advances	20,500	23,500
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	518	221
Official checks	44	114
Other liabilities	2,252	1,623

Total liabilities	105,843	116,622
Commitments and contingencies (Notes 1, 8 and 9)		
Stockholders' equity:		
Preferred stock, no par value; 6,000,000 shares authorized, 7 shares issued and outstanding in 2017 and 2016	—	—
Common stock, $.01 par value; 5,000,000 shares authorized, 1,103,447 shares issued and outstanding in 2017 and 2016	11	11
Additional paid-in capital	34,039	34,039
Accumulated deficit	(31,227)	(30,717)
Accumulated other comprehensive loss	(194)	(252)
Total stockholders' equity	2,629	3,081
Total liabilities and stockholders' equity	$ 108,472	$ 119,703

See accompanying notes to condensed consolidated financial statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest income:				
Loans	$972	$1,082	$2,971	$3,156
Securities	96	117	306	367
Other	65	24	162	75
Total interest income	1,133	1,223	3,439	3,598
Interest expense:				
Deposits	167	181	524	550
Borrowings	141	91	378	260
Total interest expense	308	272	902	810
Net interest income	825	951	2,537	2,788
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	825	951	2,537	2,788
Noninterest income:				
Service charges and fees	44	22	55	63
Gain on sale of securities available for sale	7	2	7	48
Other	3	7	9	14
Total noninterest income	54	31	71	125
Noninterest expenses:				
Salaries and employee benefits	423	430	1,301	1,385
Occupancy and equipment	91	112	293	346
Data processing	96	77	262	250
Professional fees	134	151	526	480
Insurance	24	27	72	78
Regulatory assessment	50	74	152	221

Other	117	89	512	461
Total noninterest expenses	935	965	3,118	3,263
Net (loss) earnings	$(56)	$22	$(510)	$(308)
Net (loss) earnings per share- Basic and diluted	$(.05)	$.02	$(.46)	$(0.30)

See accompanying notes to condensed consolidated financial statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net (loss) earnings	$(56)	$22	(510)	$(308)
Other comprehensive income (loss):				
Unrealized Gain (loss) on securities available for sale:				
Unrealized Gain (loss) arising during the period	29	(281)	100	129
Reclassification adjustment for realized gains on securities available for sale	(7)	(2)	(7)	(48)
Net change in unrealized holding loss (gain)	22	(283)	93	81
Deferred income taxes (benefit) on above change	8	(107)	35	33
Total other comprehensive income (loss)	14	(176)	58	48
Comprehensive loss	$(42)	$(154)	$(452)	$(260)

See accompanying notes to condensed consolidated financial statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

Nine Months ended September 30, 2017 and 2016

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Total Comprehensive Income	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Equity
Balance at December 31, 2015	4	$ —	9,628,863	$ 96	$ 33,330	$ (30,321)	$ (138)	$ 2,967
Reverse common stock split (1-for-10) (unaudited)	—	—	(8,665,694)	(87)	87	—	—	—
Proceeds from sale of Preferred stock (unaudited)	3	—	—		75	—	—	75
Proceeds from sale of common stock (unaudited)	—	—	92,980	1	374	—	—	375
Common stock issued as compensation to directors (unaudited)	—	—	53,855	1	231	—	—	232
Common stock issued for services (unaudited)	—	—	36,118	—	128	—	—	128
Reversal of common stock issued as compensation to directors (unaudited) (See Note 13)	—	—	(46,296)	—	(200)	—	—	(200)
Net loss for the nine months ended September 30, 2016 (unaudited)	—	—	—	—	—	(308)	—	(308)
Net change in unrealized loss on securities available for sale, net	—	—	—	—	—	—	48	48

of taxes (unaudited)								
Balance at September 30, 2016 (unaudited)	7	$ —	1,099,826	$ 11	$ 34,025	$ (30,629)	$ (90)	$ 3,317
Balance at December 31, 2016	7	$ -	1,103,447	$ 11	$ 34,039	$ (30,717)	$ (252)	$ 3,081
Net loss for the nine months ended September 30, 2017 (unaudited)	—	—	—	—	—	(510)	—	(510)
Net change in unrealized loss on securities available for sale, net of taxes (unaudited)	—	—	—	—	—	—	58	58
Balance at September 30, 2017 (unaudited)	7	—	1,103,447	$ 11	$ 34,039	$ (31,227)	$ (194)	$ 2,629

See accompanying notes to condensed consolidated financial statements

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(510)	$(308)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	117	118
Gain on sale of securities available for sale	(7)	(48)
Common stock issued as compensation to directors	—	32
Common stock issued as compensation for services	—	128
Net amortization of fees, premiums and discounts	316	38
Decrease in other assets	47	79
Decrease in accrued interest receivable	14	73
Increase in official checks and other liabilities	559	225
Net cash provided by operating activities	536	337
Cash flows from investing activities:		
Principal repayments and maturity of securities available for sale	1,656	3,074
Proceeds from sale of securities available for sale	2,278	18,028
Purchase of securities available for sale	—	(17,294)
Net decrease in loans	7,678	1,342
Purchase of premises and equipment	(70)	(95)
Proceeds from sale of foreclosed real estate, net	—	1,617
Redemption (purchase) of Federal Home Loan Bank stock	134	(52)
Net cash provided by investing activities	11,676	6,620
Cash flows from financing activities:		
Net decrease in deposits	(8,635)	(7,263)
Increase in advance payments by borrowers for taxes and insurance	297	431
Repayment Purchase of Federal Home Loan Bank advances, net	(3,000)	500
Proceeds from sale of common stock	—	375
Proceeds from sale of preferred stock	—	75
Net cash used in financing activities	(11,338)	(5,882)

Net increase in cash and cash equivalents	874	1,075
Cash and cash equivalents at beginning of the period	17,640	10,365
Cash and cash equivalents at end of the period	$18,514	$11,440

See accompanying notes to condensed consolidated financial statements

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Nine Months Ended September 30,	
	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$748	$671
Income Taxes	$—	$—
Noncash — Investing Activity		
Change in accumulated other comprehensive loss, net change in unrealized loss on securities available for sale	$58	$48

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 Florida-chartered commercial bank. The Bank's wholly-owned subsidiaries are OB Real Estate Management, LLC and OB Real Estate Holdings, LLC, both of which were formed in 2009; OB Real Estate Holdings 1692 and OB Real Estate Holdings 1704 formed in 2012, collectively, (the "Real Estate Holding Subsidiaries"). 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 2017 and 2016. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

Basis of Presentation. 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 September 30, 2017, and the results of operations and comprehensive loss for the three and nine month periods ended September 30, 2017 and 2016, and cash flows for the nine month periods ending September 30, 2017 and 2016. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year.

Going Concern Status. The Company is in default with respect to its $5,155,000 Junior Subordinated Debenture ("Debenture") due to its failure to make certain required interest payments under the Debenture. The Trustee of the Debenture (the "Trustee") or the holders of the Debenture are entitled to accelerate the payment of the $5,155,000 principal balance plus accrued and unpaid interest totaling $1,314,000 at September 30, 2017. To date the Trustee has not accelerated the outstanding balance of the Debenture. No adjustments to the accompanying condensed consolidated financial statements have been made as a result of this uncertainty.

Management's plans with regard to this matter are as follows: A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the Debenture.

In March 2016, the Trustee received a direction from certain equity owners of the Trust that holds the Debenture to sell the Debenture to a Director of the Company. Based upon the receipt of conflicting directions from other debt holders of the Trust, in August 2016, the Trustee commenced an action in a Minnesota State Court seeking directions from the Court. The case was subsequently transferred to United States District Court for the Southern District of New York, where the case is currently pending. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

Comprehensive Loss GAAP generally requires that recognized revenue, expenses, gains and losses be included in operations. 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 condensed consolidated balance sheets, such items along with net (loss) earnings, are components of comprehensive loss. The only component of comprehensive loss is the net change in the unrealized loss (gain) on the securities available for sale.

Income Taxes. The Company assessed its earnings history and trends and estimates of future earnings, and determined that the deferred tax asset could not be realized as of September 30, 2017. Accordingly, a valuation allowance was recorded against the net deferred tax asset.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) ***General, Continued.***

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identity impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available for-sale debt securities in combination with the Company's other deferred tax assets. The ASU is effective for the Company beginning January 1, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. The Company is in the process of determining the effect of the ASU on its condensed consolidated financial statements. Early application will be permitted.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718)* intended to improve the accounting for employee share-based payments. The ASU affects all organizations that issue share-based payment awards to their employees. The ASU simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the consolidated statement of cash flows. The ASU was effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has evaluated the effect of ASU and determined it has no material effect on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13 *Financial Instruments-Credit Losses (Topic 326).* The ASU improves financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by the Company. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its condensed consolidated financial statements.

In March 2017, FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)* which amends the accounting for the amortization of premiums for certain purchased callable debt securities by shortening the amortization period to the earliest call date. ASU 2017-08 is effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-08 may have, if any, on its condensed consolidated financial statements.

In May 2017, the FASB issued new guidance related to Stock Compensation, Scope of Modification Accounting. The new guidance provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Accounting Standards Codification Topic 718, Compensation—Stock Compensation. An entity will not apply modification accounting to a share-based payment award if all of the following are the same immediately before and after the change: (i) the award's fair value, (ii) the award's vesting conditions and (iii) the award's classification as an equity or liability instrument. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted. The Company is in the process of determining the effect of the amendments on its condensed consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, The ASU amends ASC 815 which makes limited changes to the Board's guidance on classifying certain financial instruments as either liabilities or equity. The ASU's objective is to improve (1) the accounting for instruments with "down-round" provisions and (2) the readability of the guidance in ASC 480 on distinguishing liabilities from equity by replacing the indefinite deferral of certain pending content with scope exceptions. In addition, the ASU amends the guidance on the recognition and measurement of freestanding equity-classified instruments (e.g., warrants) by adding requirements to ASC 260 for entities that disclose earnings per share (EPS). The ASU is effective for annual reporting periods beginning after December 15, 2018, early adoption is permitted upon its issuance. The Company currently has no financials instruments related to this ASU. As a result, the adoption of this guidance is not expected to be material to the condensed consolidated financial statements.

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-12, which amends the hedge accounting recognition and presentation requirements in ASC 815. The Board's objectives in issuing the ASU are to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and to reduce the complexity of and simplify the application of hedge accounting by preparers. The ASU is effective for fiscal years beginning after December 15, 2018, early adoption is permitted upon its issuance. The Company currently has no hedging relationships. As a result, the adoption of this guidance is not expected to be material to the condensed consolidated financial statements.

Reclassification. Certain amounts have been reclassified to conform to the 2017 condensed consolidated financial statement presentation.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(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 September 30, 2017:				
Securities Available for Sale:				
Collateralized mortgage obligations	$ 9,181	$ —	$ (299)	$ 8,882
SBA Pool Securities	7,330	8	(21)	7,317
Total	$ 16,511	$ 8	$ (320)	$ 16,199
At December 31, 2016:				
Securities Available for Sale:				
Collateralized mortgage obligations	$ 10,157	$ —	$ (405)	$ 9,752
SBA Pool Securities	10,470	—	—	10,470
Total	$ 20,627	$ —	$ (405)	$ 20,222

The following summarizes the sales of securities (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Proceeds from sales of securities	$ 2,278	$ 8,180	$ 2,278	$ 18,028
Gross gains from sale of securities	7	20	7	66
Gross losses from sale of securities	—	(18)	—	(18)
Net gain from sales of securities	$ 7	$ 2	$ 7	$ 48

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

	At September 30, 2017			
	Over Twelve Months		Less Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Collateralized mortgage obligations	$(299)	$8,882	$—	$—
SBA Pool Securities	—	—	(21)	4,091
	$(299)	$8,882	$(21)	$4,091

	At December 31, 2016			
	Over Twelve Months		Less Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale-				
Collateralized mortgage obligations	$(46)	$ 864	$(359)	$8,888

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

Securities, Continued.

(2) Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrants such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospectus of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2017 and December 31, 2016, the unrealized losses on fourteen investment securities and six investment securities, respectively 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.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	At September 30, 2017	At December 31, 2016
Residential real estate	$ 26,564	$ 27,334
Multi-family real estate	6,142	5,829
Commercial real estate	30,637	29,264
Land and construction	3,037	5,681
Commercial	5,390	10,514
Consumer	1,025	1,829
Total loans	72,795	80,451
Add (deduct):		
Net deferred loan fees, costs and premiums	302	463
Allowance for loan losses	(3,903)	(3,915)
Loans, net	$ 69,194	$ 76,999

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(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, 2017:								
Beginning balance	$ 302	$ 62	$ 769	$ 61	$ 67	$ 148	$ 2,486	$ 3,895
Provision (credit) for loan losses	322	$ —	$ 6	$ (2)	$ (2)	$ (3)	$ (321)	$ —
Charge-offs	—	$ —	$ —	$ —	$ —	$ (3)	$ —	$ (3)
Recoveries	—	$ —	$ —	$ 6	$ —	$ 5	$ —	$ 11
Ending balance	$ 624	$ 62	$ 775	$ 65	$ 65	$ 147	$ 2,165	$ 3,903
Three Months Ended September 30, 2016:								
Beginning balance	$ 262	$ 39	$ 1,012	$ 64	$ 200	$ 156	$ 2,507	$ 4,240
Provision (credit) for loan losses	58	19	89	(4)	48	75	(285)	—
Charge-offs	—	—	(14)	—	—	(72)	—	(86)
Recoveries	—	—	—	6	—	9	—	15
Ending balance	$ 320	$ 58	$ 1,087	$ 66	$ 248	$ 168	$ 2,222	$ 4,169
Nine Months ended September 30, 2017:								
Beginning balance	$ 310	$ 58	$ 787	$ 120	$ 188	$ 165	$ 2,287	$ 3,915
Provision (credit) for loan losses	314	$ 4	$ (12)	$ (73)	$ (123)	$ 12	$ (122)	$ —
Charge-offs	—	$ —	$ —	$ —	$ —	$ (43)	$ —	$ (43)
Recoveries	—	$ —	$ —	$ 18	$ —	$ 13	$ —	$ 31
Ending balance	$ 624	$ 62	$ 775	$ 65	$ 65	$ 147	$ 2,165	$ 3,903
Nine Months Ended September 30, 2016:								

Beginning balance	$ 116	$ 26	$ 1,085	$ 77	$ 120	$ 151	$ 720	$2,295
Provision (credit) for loan losses	204	32	(2,033)	(29)	128	196	1,502	—
Charge-offs	—	—	(14)	—	—	(195)	—	(209)
Recoveries	—	—	2,049	18	—	16	—	2,083
Ending balance	$ 320	58	1,087	66	248	168	2,222	4,169

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(3) ***Loans, Continued.***

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Unallocated	Total
At September 30, 2017:								
Individually evaluated for impairment:								
Recorded investment	$ 1,354	$—	$ 981	$ —	$—	$—	$ —	$2,335
Balance in allowance for loan losses	$ 336	$—	$ 76	$ —	$—	$—	$ —	$412
Collectively evaluated for impairment:								
Recorded investment	$ 25,210	$6,142	$ 29,656	$ 3,037	$ 5,390	$ 1,025	$ —	$70,460
Balance in allowance for loan losses	$ 288	$62	$ 699	$ 65	$ 65	$ 147	$ 2,165	$3,491
At December 31, 2016:								
Individually evaluated for impairment:								
Recorded investment	$ 375	$—	$ 1,004	$ —	$—	$—	$ —	$1,379
Balance in allowance for loan losses	$—	$—	$ 104	$ —	$—	$—	$ —	$104
Collectively evaluated for impairment:								
Recorded investment	$ 26,959	$5,829	$ 28,260	$ 5,681	$ 10,514	$ 1,829	$ —	$79,072
Balance in allowance for loan losses	$ 310	$58	$ 683	$ 120	$ 188	$ 165	$ 2,287	$3,811

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(3) ***Loans, Continued.***

Residential Real Estate, Multi-Family Real Estate, Commercial Real Estate, Land and Construction. All 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 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. Construction loans to borrowers 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, cost estimates and pre-construction sales information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for 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.

Commercial. Commercial business loans and lines of credit consist of loans to small- and medium-sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through its underwriting standards.

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. Risk is mitigated by the fact that the loans are of smaller individual amounts.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Pass	OLEM (Other Loans Especially Mentioned)	Sub-standard	Doubtful	Loss	Total
At September 30, 2017:						
Residential real estate	$22,820	$ 3,375	$ 369	$ —	$ —	$26,564
Multi-family real estate	6,142	$ —	$ —	$ —	$ —	$6,142
Commercial real estate	26,773	$ 2,883	$ 981	$ —	$ —	$30,637
Land and construction	651	$ 2,386	$ —	$ —	$ —	$3,037
Commercial	3,133	$ 2,257	$ —	$ —	$ —	$5,390
Consumer	1,025	$ —	$ —	$ —	$ —	$1,025
Total	$60,544	$ 10,901	$ 1,350	$ —	$ —	$72,795
At December 31, 2016:						
Residential real estate	$25,326	$ 1,633	$ 375	$ —	$ —	$27,334
Multi-family real estate	5,829	—	—	—	—	5,829
Commercial real estate	25,979	1,174	2,111	—	—	29,264
Land and construction	5,636	45	—	—	—	5,681
Commercial	8,768	—	1,746	—	—	10,514
Consumer	1,823	—	6	—	—	1,829
Total	$73,361	$ 2,852	$ 4,238	$ —	$ —	$80,451

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 – 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. Included in this category are loans that are current on their payments, but the Bank is unable to document the source of repayment. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – A loan classified as Doubtful has all the weaknesses inherent in one classified as 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 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)

(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 September 30, 2017:							
Residential real estate	$ —	$ —	$ —	$ —	$ 26,564	$ —	$ 26,564
Multi-family real estate	—	—	—	—	6,142	—	6,142
Commercial real estate	—	—	—	—	30,637	—	30,637
Land and construction	—	—	—	—	3,037	—	3,037
Commercial	—	—	—	—	5,390	—	5,390
Consumer	—	—	—	—	1,025	—	1,025
Total	$ —	$ —	$	$ —	$ 72,795	$ —	$ 72,795
At December 31, 2016:							
Residential real estate	$—	$—	$ —	$—	$26,959	$ 375	$27,334
Multi-family real estate	—	—	—	—	5,829	—	5,829
Commercial real estate	—	—	—	—	29,264	—	29,264
Land and construction	—	—	—	—	5,681	—	5,681
Commercial	—	—	—	—	10,514	—	10,514
Consumer	—	6	—	6	1,823	—	1,829
Total	$—	$6	$ —	$6	$80,070	$ 375	$80,451

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

At September 30, 2017			At December 31, 2016		
Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance

With no related allowance recorded:						
Residential real estate	$370	$ 495	$ —	$375	$ 501	$ —
Commercial real estate	232	232	—	—	—	—
With related allowance recorded:						
Residential real estate	984	984	336	—	—	—
Commercial real estate	$749	749	76	1,004	1,004	104
Total						
Residential real estate	$1,354	$ 1,479	$ 336	$375	$ 501	$ —
Commercial real estate	$981	$ 981	$ 76	$1,004	$ 1,004	$ 104
Total	$2,335	$ 2,460	$ 412	$1,379	$ 1,505	$ 104

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(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,					
	2017			2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate	$385	$ 12	$ 12	$598	$ 3	$ 16
Commercial real estate	$907	$ 14	$ 14	$1,829	$ 16	$ 22
Total	$1,292	$ 26	$ 26	$2,427	$ 19	$ 38

	Nine Months Ended September 30,					
	2017			2016		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate	$375	$ 36	$ 36	$1,057	$ 36	$ 64
Commercial real estate	$899	$ 39	$ 39	$2,483	$ 63	$ 89
Total	$1,274	$ 75	$ 75	$3,540	$ 99	$ 153

No loans have been determined to be troubled debt restructurings during the three and nine month periods ended September 30, 2017 or 2016.

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at September 30, 2017 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	8.54 %	8.00 %
Tier I capital to risk-weighted assets	13.12%	NA %
Common equity Tier I capital to risk-weighted assets	13.12%	NA %
Total capital to risk-weighted assets	14.42%	12.00 %

At September 30, 2017, the Bank is well-capitalized. As a result of the Consent Order discussed in Note 9, 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 SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(5) ***(Loss) Earnings per Share.*** Basic (loss) earnings per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the periods. (Loss) earnings per common share have been computed based on the following (weighted-average number of common shares outstanding have been adjusted for the reverse stock split discussed in note 11):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted-average number of common shares outstanding used to calculate basic and diluted (loss) earnings per common share	1,103,447	1,097,644	1,103,447	1,024,704

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(6) ***Stock-Based Compensation.*** On December 27, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan ("2011 Plan"). In May 2016, the Company increased the total number of shares available to be awarded from 105,000 shares (adjusted for the one-for-ten reverse stock split) to 210,000 shares. 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. Options must be exercised within ten years of the date of grant.

As of September 30, 2017, only common stock has been issued as compensation to directors for services rendered under this plan. There were no shares of common stock issued during the period ended September 30, 2017. A total of 7,559 shares of common stock (adjusted for one-for-ten reverse stock split) were issued during the period ended September 30, 2016. A total of $32,000 of compensation was recorded during the period ended September 30, 2016. Subsequently, $200,000 (46,296 shares) was reclassified to other liabilities (see Note 13). At September 30, 2017, a total of 145,861 (adjusted for one-for-ten reverse stock split) shares remain available for grant.

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

Impaired Collateral Dependent Loans:

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations
At September 30, 2017-						
Residential real estate	$1,018	$ —	$ —	$1,018	$ 461	$ —

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations
At December 31, 2016-						
Residential real estate	$ 375	$ —	$ —	$375	$ 126	$ —

Available-for-sale securities measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At September 30, 2017:				
Collateralized mortgage obligations	$8,882	—	$ 8,882	—
SBA Pool Securities	7,317	—	7,317	—
	$16,199	—	$ 16,199	—
At December 31, 2016:				
Collateralized mortgage obligations	$9,752	$ —	$ 9,752	$ —
SBA Pool Securities	10,470	—	10,470	—
	$20,222	$ —	$ 20,222	$ —

During the three and nine month periods ended September 30, 2017 and 2016, no securities were transferred in or out of Level 1, Level 2 or Level 3.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(8) ***Fair Value of Financial Instruments.*** The estimated fair values and fair value measurement method with respect to the Company's financial instruments were as follows (in thousands):

	At September 30, 2017				**At December 31, 2016**			
	Carrying Amount	**Fair Value**		**Level**	**Carrying Amount**	**Fair Value**		**Level**
Financial assets:								
Cash and cash equivalents	$18,514	$18,514		1	$17,640	$17,640		1
Securities available for sale	16,199	16,199		2	20,222	20,222		2
Loans	69,194	69,095		3	76,999	76,829		3
Federal Home Loan Bank stock	979	979		3	1,113	1,113		3
Accrued interest receivable	366	366		3	380	380		3
Financial liabilities:								
Deposit liabilities	77,374	77,935		3	86,009	86,364		3
Federal Home Loan Bank advances	20,500	20,458		3	23,500	23,500		3
Junior subordinated debenture	5,155	NA	(1)	3	5,155	N/A	(1)	3
Off-balance sheet financial instruments	—	—		—	—	—		—

(1) The Company is unable to determine the fair value based on significant unobservable inputs required in the calculation refer to Note 10 for further information.

The Company is 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 amount recognized in the condensed consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet 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. Because some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the

Company, upon extension of credit, is based on management's credit evaluation of the counterparty.

As of September 30, 2017, commitments to extend credit totaled $4.3 million.

(9) ***Regulatory Matters.*** The Bank is subject to various regulatory capital requirements administered by the bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Effective January 1, 2015, the Bank, became subject to the new Basel III capital level threshold requirements under the Prompt Corrective Action regulations with full compliance with all of the final rule's requirements phased in over a multi-year schedule. These new regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

Changes that could affect the Bank going forward include additional constraints on the inclusion of deferred tax assets in capital and increased risk weightings for nonperforming loans and acquisition/development loans in regulatory capital. Beginning on January 1, 2016, the Bank became subject to the capital conservation buffer rules which places limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, an institution must hold a capital conservation buffer above its minimum risk-based capital requirements. As of September 30, 2017 and December 31, 2016, the Bank's capital conversation buffer exceeds the minimum requirements of 0.625%. The required buffer is to be phased in over three years. Under the new regulations in the first quarter of 2015, the Bank elected an irreversible one-time opt-out to exclude accumulated other comprehensive loss from regulatory capital.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(9) ***Regulatory Matters, Continued.*** As of September 30, 2017 and December 31, 2016, the Bank is subject to a Consent Order issued by the Federal Deposit Insurance Corporation and the State of Florida Office of Financial Regulation ("OFR"), and accordingly is deemed to be "adequately capitalized" even if its capital ratios were to exceed those generally required to be a "well capitalized" bank. An institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. The Bank's actual capital amounts and percentages are also presented in the table (dollars in thousands):

The following table shows the Bank's capital amounts and ratios and regulatory thresholds at September 30, 2017 and December 31, 2016 (dollars in thousands):

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Requirements of Consent Order	
	Amount	%	Amount	%	Amount	%	Amount	%
As of September 30, 2017:								
Total Capital to Risk-Weighted Assets	$10,472	14.42%	$5,809	8.0%	$7,262	10.0%	$8,714	12.00%
Tier I Capital to Risk-Weighted Assets	9,527	13.12%	4,357	6.0%	5,809	8.0 %	NA	NA
Common equity Tier I capital to Risk-Weighted Assets	9,527	13.12%	3,268	4.5%	4,720	6.5 %	NA	NA
Tier I Capital to Total Assets	9,527	8.54 %	4,463	4.0%	5,579	5.0 %	8,926	8.00 %
As of December 31, 2016:								
Total Capital to Risk-Weighted Assets	$10,662	12.79%	$6,609	8.0%	$8,261	10.0%	$9,913	12.0 %
Tier I Capital to Risk-Weighted Assets	9,498	11.50%	4,957	6.0%	6,609	8.0 %	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,498	11.50%	3,718	4.5%	5,370	6.5 %	N/A	N/A
Tier I Capital to Total Assets	9,498	8.06 %	4,714	4.0%	5,893	5.0 %	9,428	8.0 %

Regulatory Enforcement Actions

Bank Consent Order. On November 7, 2016, the Bank agreed to the issuance of a Consent Order by the FDIC and the OFR (the "Consent Order"), which requires the Bank to take certain measures to improve its safety and soundness. The

Consent Order supersedes the prior consent order that became effective in 2010. Pursuant to the Consent Order, the Bank is required to take certain measures to improve its management, condition and operations, including actions to improve management practices and board supervision and independence, assure that its allowance for loan losses is maintained at an appropriate level and improve liquidity. The Consent Order requires the Bank to adopt and implement a compliance plan to address the Bank's obligations under the Bank Secrecy Act and related obligations related to anti-money laundering. The Consent Order prohibits the payment of dividends by the Bank. The Consent Order continues the requirement for the Bank to maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of 12% beginning 90 days from the issuance of the Consent Order. At September 30, 2017, the Bank had a Tier 1 leverage ratio of 8.54%, and a total risk-based capital ratio of 14.42%.

See Footnote 13 to the Consolidated Financial Statements included in the Company's 2016 Form 10-K for additional information concerning the requirements of the Consent Order.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

Regulatory Matters, Continued. Management believes that the Bank has made substantial progress in improving its financial condition through a significant reduction in non-performing assets and the receipt of capital increases from investors since the 2010 Consent Order. The Bank is also making significant progress in resolving the other issues raised by the FDIC and the OFR including strengthening the senior management team with the addition of David Edgar as Chief Financial Officer in October 2017. Although the Bank has been hampered by difficulties in raising capital due to the default under the Junior Subordinated Debenture and the limits placed on the Company and the Bank under the prior Consent Order and the Written Agreement. Management intends to continue its efforts to meet the conditions of the New Consent Order and the Written Agreement.

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. The Written Agreement prohibits, without the prior approval of the Reserve Bank, the payment of dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities (including the Debenture), 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 in substantial compliance with the requirements of the Written Agreement.

(10) ***Junior Subordinated Debenture.*** On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the “Debenture”). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.78% at September 30, 2017). The Debenture is redeemable in certain circumstances. The terms of the Debenture 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 consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of September 30, 2017 totaled $1,314,000. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, 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 accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director’s purchase of the debenture.

In March of 2016, the Trustee received a direction from certain equity owners of the Trust that hold the Debenture to Sell the Debenture to a Director of the Company. Based upon the receipt of other conflicting directions, in August 26, 2016, the Trustee commenced an action in a Minnesota State Court seeking directions from the Court.

The case was subsequently transferred to the United States District Court for the Southern District of New York, were the case is currently pending. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

(11) ***Reverse Common Stock Split.*** Effective January 11, 2016 each ten shares of the Company's common stock were converted into one share of common stock. Loss (earnings) per share for 2017 and 2016 has been adjusted to reflect the 1-for-10 reverse common stock split.

(12) ***Loan Loss Recovery.*** On January 6, 2016, the Bank completed a sale of judgement on a defaulted credit that resulted in a $1.8 million recovery of previously charged-off amounts to the Allowance for Loan and Lease Losses ("ALLL"). This increased the balance of the ALLL to approximately $4.2 million. On February 12, 2016, and amended May 6, 2016, pursuant to the terms and requirements of the Consent Order, Management submitted a written request to the FDIC for a partial reversal of the ALLL. The FDIC has requested additional information to assess the Bank's request for a reversal. As of this date, the FDIC has not reached a final decision in regards to the Bank's request.

(13) ***Reclassification.*** During the quarter ended March 31, 2016, the Company agreed to issue 46,296 shares to the Bank's Chairman as compensation. The Company recorded compensation expense of $200,000 based on the fair market value of the shares at that time, and reflected the issuance of the shares as an increase in stockholders' equity. The Bank's Chairman has not yet taken delivery of the shares. As a result, during the quarter ended September 30, 2016, the Company determined to reclassify the transaction as a liability of the Company (rather than an increase in stockholders' equity) until the issuance of the shares. As of December 31, 2016, an accrued liability totaling $200,000 was recorded in connection with these shares.

(14) ***Brokered Deposits.*** Under the terms of the Consent Order, the Bank is not permitted to solicit brokered deposits. In March 2017, the FDIC notified the Bank that it considers a significant portion of the Bank's certificates of deposit to be brokered deposits due to the rates paid on such deposits, even though such deposits were not obtained through any deposit brokers. The Bank has requested a waiver of the prohibition on brokered deposits from the FDIC which has been subsequently withdrawn. Consequently, the Bank can not renew or rollover the existing certificates of deposit that are viewed as brokered deposits, which have an adverse effect on the Bank's liquidity. Management has identified several strategies to mitigate this issue and believes that the Bank's liquidity will be sufficient. As of September 30, 2017, the Bank had $25.1 million in brokered deposits that will mature over the next two years. Management is exploring all alternatives to resolve this issue including, but not limited to, raising local deposits.

(15) ***Bank Secrecy Act ("BSA") Lookback Review.*** Under the terms of the Consent Order, the Bank is required to perform a BSA lookback review. The Bank estimates that the cost of the BSA lookback review will range from $250,000 to $300,000 based on an independent firm's proposal for services. The proposal and ultimate agreement is subject to FDIC review and approval. Until the approval is received, these BSA services cannot be rendered. Once the BSA lookback review begins, the independent firm has 120 days to complete the work. As of September 30, 2017, the Bank has accrued $210,000 for the proposed services.

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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, 2016 in the Annual Report on Form 10-K.

The following discussion and analysis should also be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the control of the Company, including adverse changes in economic, political and market conditions, losses from the Company's lending activities and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of federal and state securities laws and the impact of changes in technology in the banking industry. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business and future market conditions, there can be no assurances that the Company's actual results will not differ materially from any results expressed or implied by the Company's forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that any forward-looking statements are not guarantees of future performance.

Regulatory Enforcement Actions

Bank Consent Order. On November 7, 2016, the Bank agreed to the issuance of a Consent Order by the FDIC and the OFR (the "Consent Order"), which requires the Bank to take certain measures to improve its safety and soundness. The Consent Order supersedes the prior consent order that became effective in 2010. Pursuant to the Consent Order, the Bank is required to take certain measures to improve its management, condition and operations, including actions to improve management practices and board supervision and independence, assure that its allowance for loan losses is maintained at an appropriate level and improve liquidity. The Consent Order requires the Bank to adopt and implement a compliance plan to address the Bank's obligations under the Bank Secrecy Act and related obligations related to anti-money laundering. The Consent Order prohibits the payment of dividends by the Bank. The Consent Order continues the requirement for the Bank to maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of 12% beginning 90 days from the issuance of the Consent Order. At September 30, 2017, the Bank had a Tier 1 leverage ratio of 8.54%, and a total risk-based capital ratio of 14.42%.

See Footnote 13 to the Consolidated Financial Statements included in the Company's 2016 Form 10-K for additional information concerning the requirements of the Consent Order.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Management believes that the Bank has made substantial progress in improving its financial condition through a significant reduction in non-performing assets and the receipt of capital increases from investors since the 2010 Consent Order. The Bank is also making significant progress in resolving the other issues raised by the FDIC and the OFR including strengthening the senior management team with the addition of David Edgar as Chief Financial Officer in October 2017. Although the Bank has been hampered by difficulties in raising capital due to the default under the Debenture and the limits placed on the Company and the Bank under the prior Consent Order and the Written Agreement. Management intends to continue its efforts to meet the conditions of the New Consent Order and the Written Agreement.

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. The Written Agreement prohibits, without the prior approval of the Reserve Bank, the payment of dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities (including the Debenture), 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 in substantial compliance with the requirements of the Written Agreement.

Capital Levels

Quantitative measures established by regulation and by the Consent Order to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. As of September 30, 2017, the Bank met the minimum applicable capital adequacy requirements for Total Capital to Risk – Weighted Assets, and for Tier I Capital to Total Assets.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

The Bank's actual and required minimum capital ratios were as follows (in thousands):

Regulatory Capital Requirements

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Requirements of Consent Order	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
As of September 30, 2017:								
Total Capital to Risk-Weighted Assets	$10,472	14.42%	$5,809	8.0%	$7,262	10.02%	$8,714	12.00%
Tier I Capital to Risk-Weighted Assets	9,527	13.12%	4,357	6.0%	5,809	8.0%	NA	NA
Common equity Tier I capital to Risk-Weighted Assets	9,527	13.12%	3,268	4.5%	4,720	6.5%	NA	NA
Tier I Capital to Total Assets	9,527	8.54%	4,463	4.0%	5,579	5.0%	8,926	8.00%
As of December 31, 2016:								
Total Capital to Risk-Weighted Assets	$10,662	12.79%	$6,609	8.0%	$8,261	10.0%	$9,913	12.0%
Tier I Capital to Risk-Weighted Assets	9,498	11.50%	4,957	6.0%	6,609	8.0%	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,498	11.50%	3,718	4.5%	5,370	6.5%	N/A	N/A
Tier I Capital to Total Assets	9,498	8.06%	4,714	4.0%	5,893	5.0%	9,428	8.0%

Financial Condition at September 30, 2017 and December 31, 2016

Overview

The Company's total assets decreased by $11.2 million to $108.5 million at September 30, 2017, from $119.7 million at December 31, 2016, primarily due to a reduction in total deposits. Total stockholders' equity decreased approximately $0.5 million at September 30, 2017 from $3.1 million at December 31, 2016 to $2.6 million, primarily due to the net loss of $510,000 for the nine months ended September 30, 2017. As of September 30,2017, the Bank has provided for a reserve for BSA Compliance lookback of $210.000.

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

	Nine Months Ended September 30, 2017		**Nine Months Ended September 30, 2016**		**Year Ended December 31, 2016**	
Average equity as a percentage of average assets	2.22	%	2.59	%	2.6	%
Equity to total assets at end of period	2.42	%	2.73	%	2.6	%
Return on average assets (1)	(.45	)%	(0.34	)%	(0.3	)%
Return on average equity (1)	(18.15	)%	(12.96	)%	(12.5	)%
Noninterest expenses to average assets (1)	2.74	%	3.51	%	3.3	%

(1) Annualized for the nine months ended September 30, 2017 and 2016.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Liquidity and Sources of Funds

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

Deposits are our primary source of funds. In order to increase its core deposits, the Bank has priced its deposit rates competitively. The Bank will adjust rates on its deposits to attract or retain deposits as needed. Under the Consent Order, the interest rate that the Bank pays on its market area deposits is restricted. 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.

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At September 30, 2017, the Bank had outstanding borrowings of $20,500,000, against its $31,300,000 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 Federal Reserve Bank, currently $643,700. The Federal Reserve Bank line is subject to collateral requirements and must be repaid within 90 days; each advance is subject to prior Federal Reserve Bank consent. The Bank also has a $2.5 million line of credit with SunTrust, $750,000 line of credit with Servis First Bank and a $2.5 million line of credit with AloStar Bank. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

In the past, the Company, on an unconsolidated basis, relied on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on the Company's junior subordinated debenture (the "Debenture"). Under the Consent Order, the Bank is currently unable to pay dividends to the Company without prior regulatory approval. Additionally, under the Written Agreement, the Company may not pay interest payments on the Debenture or dividends on the Company's common stock, incur any additional indebtedness at the Company level, or redeem the Company's common stock without the prior regulatory approval of the Federal Reserve Bank. Since January 2010, the Company has deferred interest payments on the Debenture, which has been in default since 2015. See "Junior Subordinated Debenture" below.

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 September 30, 2017, the Company had commitments to extend credit totaling $4.3 million.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Junior Subordinated Debenture

On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the “Debenture”). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.78% at September 30, 2017). The Debenture is redeemable in certain circumstances. The terms of the Debenture 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 consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of September 30, 2017 totaled $1,314,000. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, 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 accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director’s purchase of the debenture.

In March of 2016, the Trustee received a direction from certain equity owners of the Trust that hold the Debenture to Sell the Debenture to a Director of the Company. Based upon the receipt of other conflicting directions, in August 26, 2016, the Trustee commenced an action in a Minnesota State Court seeking directions from the Court. The case was subsequently transferred to the United States District Court for the Southern District of New York, were the case is currently pending. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

In the event the amounts due under the Debenture were accelerated, then the Trustee could undertake legal proceedings to obtain a judgment against the Company with respect to such amounts due under the Debenture. If this action were successful, then the Trustee could seek to affect a sale of the Bank to pay the amounts due under the Debenture.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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 September 30,					
	2017			**2016**		
	Average Balance	**Interest and Dividends**	**Average Yield/ Rate**	**Average Balance**	**Interest and Dividends**	**Average Yield/ Rate**
	($ in thousands)					
Interest-earning assets:						
Loans	$72,777	$ 972	5.34 %	$85,020	$ 1,082	5.09 %
Securities	19,207	96	2.00	22,779	117	2.05
Other (1)	17,908	65	1.45	11,225	24	0.86
Total interest-earning assets/interest income	109,892	1,133	4.12	119,024	1,223	4.11
Cash and due from banks	1,156			910		
Premise and equipment	2,612			2,696		
Other	(3,345)			(1,005)		
Total assets	$110,315			$121,625		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	$21,657	27	.50	$22,960	29	0.51
Time deposits	49,945	140	1.12	59,069	152	1.03
Borrowings (2)	25,655	141	2.20	25,663	91	1.42
Total interest-bearing liabilities/ interest expense	97,257	308	1.27	107,692	272	1.01
Noninterest-bearing demand deposits	8,376			8,039		
Other liabilities	2,026			2,534		
Stockholders’ equity	2,656			3,360		

Total liabilities and stockholders' equity	$110,315			$121,625		
Net interest income		$ 825			$ 951	
Interest-rate spread (3)			2.85 %			3.10 %
Net interest-earnings assets	$12,635			$11,332		
Net interest margin (4)			3.00 %			3.20 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.13			1.11		

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	Nine Months Ended September 30, 2017			2016		
	Average Balance	**Interest and Dividends**	**Average Yield/ Rate**	**Average Balance**	**Interest and Dividends**	**Average Yield/ Rate**
			($ in thousands)			
Interest-earning assets:						
Loans	$76,583	$ 2,971	5.17%	$84,173	$ 3,156	5.00 %
Securities	19,622	306	2.08	23,454	367	2.09
Other (1)	16,985	162	1.27	11,433	75	0.87
Total interest-earning assets/interest income	113,190	3,439	4.05	119,060	3,598	4.03
Cash and due from banks	1,162			887		
Premise and equipment	2,624			2,694		
Other	(3,164)			(393)		
Total assets	$113,812			$122,248		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	$22,052	82	0.50	$23,719	89	0.50
Time deposits	53,609	442	1.10	62,203	461	0.99
Borrowings (2)	25,677	378	1.96	25,700	260	1.35
Total interest-bearing liabilities/ interest expense	101,338	902	1.29	111,622	810	0.97
Noninterest-bearing demand deposits	7,471			5,249		
Other liabilities	2,193			2,208		
Stockholders' equity	2,810			3,169		
Total liabilities and stockholders' equity	$113,812			$122,248		
Net interest income		$ 2,537			$ 2,788	
Interest-rate spread (3)			2.76%			3.06 %
Net interest-earning assets	$11,852			$7,438		
Net interest margin (4)			2.99%			3.12 %
Ratio of average interest-earning assets to average interest-bearing liabilities	1.21			1.07		

(1) Includes interest-earning deposits with banks 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.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Comparison of the Three-Month Periods Ended September 30, 2017 and 2016

General. Net loss for the three months ended September 30, 2017, was $(56,000) or $(.05) loss per basic and diluted share compared to a net earnings of $22,000 or $0.02 earnings per basic and diluted share for the period ended September 30, 2016.

Interest Income. Interest income decreased $90,000 for the three months ended September 30, 2017 compared to the three months Ended September 30, 2016.

Interest Expense. Interest expense on deposits and borrowings increased by $36,000 for the three months ended September 30, 2017 from $272,000 for the three months Ended September 30, 2016. Interest expense increased primarily due to higher interest paid on borrowings during the second and third quarter of 2017. In late March 2017, the Bank extended the maturities of $15.5 million in Federal Home loan Advances into longer fixed rate terms with higher interest rates. The weighted average rate of these advances increased from 0.49% to 1.19%.

Provision for Loan Losses. There was no provision for losses during the 2017 or 2016 period. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio at September 30, 2017. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $3.9 million or 5.37% of loans outstanding at September 30, 2017, as compared to $4.2 million or 4.91% of loans outstanding at September 30, 2016. Management believes the balance in the allowance for loan losses at September 30, 2017 is significantly overfunded.

Noninterest Income. Total noninterest income increased by $23,000 for the three months ended September 30, 2017, from $31,000 for the three months Ended September 30, 2016 due to significant fees collected on previously impaired loans.

Noninterest Expenses. Total noninterest expenses decreased $25,000 to $935,000 for the three months ended September 30, 2017 compared to $960,000 million for the three months Ended September 30, 2016.

Comparison of the Nine-Month Periods Ended September 30, 2017 and 2016

General. Net loss for the nine months ended September 30, 2017, was $(510,000) or $(.46) loss per basic and diluted share compared to a net loss of $(308,000) or $(0.30) loss per basic and diluted share for the nine nonths Ended September 30, 2016. The increase in net loss was due to a decrease in net interest income and a combination of higher professional fees and other non-interest expenses and a lower level of loan fees included in noninterest income.

Interest Income. Interest income decreased by $159,000 for the nine months ended September 30, 2017 from $3,598,000 for the nine months Ended September 30, 2016, primarily due to a decrease in interest earnings assets.

Interest Expense. Interest expense on deposits and borrowings increased to $902,000 for the nine months ended September 30, 2017 from $810,000 for the nine months Ended September 30, 2016. Interest expense increased primarily due to higher interest paid on borrowings during 2017. In late March 2017, the Bank extended the maturities of $15.5 million in Federal Home Loan Advances into longer fixed rate terms with higher interest rates. The weighted average rate of these advances increased from 0.49% to 1.19%.

Provision for Loan Losses. There was no provision for the nine months ended September 30, 2017 or 2016. The provision for loan losses is charged to operations in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $3.9 million or 5.37% of loans outstanding at September 30, 2017, compared to $4.2 million, or 4.91% of loans outstanding at September 30, 2016. Management believes the balance in the allowance for loan losses at September 30, 2017 is significantly overfunded.

Noninterest Income. Total noninterest income decreased to $71,000 from $125,000 for the nine months ended September 30, 2017, compared to the nine months Ended September 30, 2016 due to gains on securities sales of $48,000 in 2016 compared to $7,000 in 2017 and reduced service charges and other fees.

Noninterest Expenses. Total noninterest expenses decreased to $3,118,000 for the nine months ended September 30, 2017 compared to $3,221,000 for the nine months Ended September 30, 2016, primarily due to decreased salaries and benefits, occupancy, data processing, and regulatory assessments.

Item 4. Controls and Procedures

The Company's management evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report, and, based on this evaluation, the Principal Executive Officer and Principal Financial Officer concluded that these disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2017, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART II. OTHER INFORMATION

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

Non-Employee Director Share Issuances

On March 31, 2017, the Company agreed to issue 4,550 shares of its common stock to the Company's non-employee directors under the Company's 2011 Equity Incentive Plan and the Company's Non-Employee Director Compensation Plan (the "Director Compensation Plan") for attendance fees at board meetings of the Company. Under the Director Compensation Plan, which became effective on January 1, 2012, fees for attendance at board and committee meetings are payable 75% in shares of common stock and 25% in cash on a quarterly basis. The shares were issued at the price of $3.15, the fair market value of the shares on the date of issuance. Pursuant to the Director Compensation Plan, a director must remain on the board as of the end of the year to earn the shares. Therefore, these shares with an aggregate value of $14,333 are recorded as a liability as of September 30, 2017. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

Other Significant Share Issuance

On March 27, 2017, the Company allocated 59,523 shares to the Bank's Chairman under the 2011 Equity Incentive Plan as compensation for services as a director at the price of $3.36 per share, the fair market value of the shares on the date of issuance. The aggregate value of $200,000 was also recorded as a liability because the Bank's Chairman has yet to take delivery of the shares. In addition, in March 2016 the Company allocated 46,296 shares to the Bank' s Chairman under the 2011 Equity Incentive Plan as compensation for services as a director at the price of $4.32 per share, the fair market value of the shares on the date of issuance. The aggregate value of $200,000 was also recorded as a liability because the Bank's Chairman has yet to take delivery of the shares. The total liability recorded for these allocated shares is $400,000 as of September 30, 2017. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

Item 3. Defaults on Senior Securities

Junior Subordinated Debenture

On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the "Debenture"). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.78% at September 30, 2017). The Debenture is redeemable in certain circumstances. The terms of the Debenture 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 consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of September 30, 2017 totaled $1,314,000. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, 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 accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the debenture.

In March of 2016, the Trustee received a direction from certain equity owners of the Trust that hold the Debenture to Sell the Debenture to a Director of the Company. Based upon the receipt of other conflicting directions, in August 26, 2016, the Trustee commenced an action in a Minnesota State Court seeking directions from the Court. The case was subsequently transferred to the United States District Court for the Southern District of New York, were the case is currently pending. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

In the event the amounts due under the Debenture were accelerated, then the Trustee could undertake legal proceedings to obtain a judgment against the Company with respect to such amounts due under the Debenture. If this action were successful, then the Trustee could seek to affect a sale of the Bank to pay the amounts due under the Debenture.

Item 6. Exhibits

The exhibits contained in the Exhibit Index following the signature page are filed with or incorporated by reference into this report.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

SIGNATURES

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

		OPTIMUMBANK HOLDINGS, INC. (Registrant)
Date:	November 13, 2017	By: */s/ Timothy Terry* Timothy Terry, Principal Executive Officer
		By: */s/ David L.Edgar* David L.Edgar Principal Financial Officer

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
31.2	Certification of Principal Executive and Principal Financial Officer under 18 U.S.C. Section 1350
32.1	Certification of Principal Executive Officer
32.2	Certification of Principal Financial Officer

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

Exhibit No.	**Description**
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document