CENTRAL FEDERAL CORP
Form 10-Q
November 10, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	34-1877137
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices) (Zip Code)

(330) 666-7979
(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

As of October 31, 2011, there were 4,127,798 shares of the registrant s Common Stock outstanding.

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QUARTER ENDED SEPTEMBER 30, 2011
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CENTRAL FEDERAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 63,816	$ 34,275
Interest-bearing deposits in other financial institutions	1,984	
Securities available for sale	20,024	28,798
Loans held for sale	2,262	1,953
Loans, net of allowance of $6,955 and $9,758	158,496	190,767
FHLB stock	1,942	1,942
Loan servicing rights	37	57
Foreclosed assets, net	2,370	4,509
Premises and equipment, net	5,758	6,016
Assets held for sale		535
Other intangible assets	99	129
Bank owned life insurance	4,239	4,143
Accrued interest receivable and other assets	4,361	2,108
	$ 265,388	$ 275,232
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 20,116	$ 20,392
Interest bearing	206,628	206,989
Total deposits	226,744	227,381
Long-term FHLB advances	15,742	23,942
Advances by borrowers for taxes and insurance	49	213
Accrued interest payable and other liabilities	6,267	2,552
Subordinated debentures	5,155	5,155
Total liabilities	253,957	259,243
Stockholders equity		
Preferred stock, Series A, $.01 par value; aggregate liquidation value $7,595 in 2011, $7,225 in 2010 1,000,000 shares authorized; 7,225 shares issued	7,107	7,069
Common stock, $.01 par value, shares authorized; 12,000,000 shares issued; 4,686,331 in 2011 and 2010	47	47
Common stock warrant	217	217
Additional paid-in capital	27,575	27,542
Accumulated deficit	(20,696)	(16,313)
Accumulated other comprehensive income	426	672
Treasury stock, at cost; 558,533 shares	(3,245)	(3,245)

Total stockholders equity		11,431		15,989
	$	265,388	$	275,232

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)
(Unaudited)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest and dividend income				
Loans, including fees	$ 2,165	$ 2,863	$ 6,957	$ 9,083
Securities	68	154	379	522
FHLB stock dividends	20	22	63	65
Federal funds sold and other	38	18	109	41
	2,291	3,057	7,508	9,711
Interest expense				
Deposits	681	785	2,133	2,594
Long-term FHLB advances and other debt	111	172	419	526
Subordinated debentures	41	44	124	125
	833	1,001	2,676	3,245
Net interest income	1,458	2,056	4,832	6,466
Provision for loan losses	405	617	2,256	7,303
Net interest income (loss) after provision for loan losses	1,053	1,439	2,576	(837)
Noninterest income				
Service charges on deposit accounts	69	81	199	225
Net gains on sales of loans	158	244	222	575
Loan servicing fees, net	1	5	13	15
Net gains on sales of securities	232	228	232	468
Earnings on bank owned life insurance	31	28	96	94
Other	15	1	42	13
	506	587	804	1,390
Noninterest expense				
Salaries and employee benefits	1,004	1,113	3,078	3,226
Occupancy and equipment	64	47	218	160
Data processing	142	150	431	469
Franchise taxes	63	75	193	253
Professional fees	177	305	736	783
Director fees	44	45	135	97
Postage, printing and supplies	20	24	107	126

Advertising and promotion	10	30	34	85
Telephone	17	28	57	79
Loan expenses	9	12	39	55
Foreclosed assets, net			1,185	1
Depreciation	93	126	311	390
FDIC premiums	177	170	527	420
Amortization of intangibles	10	10	30	30
Regulatory assessment	46	37	121	82
Other insurance	42	17	93	47
Other	76	31	151	122
	1,994	2,220	7,446	6,425
Loss before income taxes	(435)	(194)	(4,066)	(5,872)
Income tax expense		38		8
Net loss	(435)	(232)	(4,066)	(5,880)
Preferred stock dividends and accretion of discount on preferred stock	(107)	(103)	(317)	(307)
Net loss attributable to common stockholders	$ (542)	$ (335)	$ (4,383)	$ (6,187)
Loss per common share:				
Basic	$ (0.13)	$ (0.08)	$ (1.06)	$ (1.51)
Diluted	$ (0.13)	$ (0.08)	$ (1.06)	$ (1.51)

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Common Stock Warrant	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2011	$ 7,069	$ 47	$ 217	$ 27,542	$ (16,313)	$ 672	$ (3,245)	$ 15,989
Comprehensive loss:								
Net loss					(4,066)			(4,066)
Change in unrealized gain (loss) on securities available for sale						(246)		(246)
Total comprehensive loss								(4,312)
Accretion of discount on preferred stock	38				(38)			
Release of 9,134 stock-based incentive plan shares, net of forfeitures				20				20
Stock option expense, net of forfeitures				13				13
Preferred stock dividends					(279)			(279)
Balance at September 30, 2011	$ 7,107	$ 47	$ 217	$ 27,575	$ (20,696)	$ 426	$ (3,245)	$ 11,431

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Common Stock Warrant	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2010	$ 7,021	$ 47	$ 217	$ 27,517	$ (9,034)	$ 704	$ (3,245)	$ 23,227
Comprehensive loss:								
Net loss					(5,880)			(5,880)
Change in unrealized gain (loss) on securities available for sale						(490)		(490)
Total comprehensive loss								(6,370)
Accretion of discount on preferred stock	36				(36)			
Release of (385) stock based incentive plan shares, net of forfeitures				(3)	1			(2)
Tax effect from vesting of stock based incentive plan shares				(30)				(30)
Stock option expense, net of forfeitures				(3)				(3)
Preferred stock dividends					(271)			(271)
Balance at September 30, 2010	$ 7,057	$ 47	$ 217	$ 27,481	$ (15,220)	$ 214	$ (3,245)	$ 16,551

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Net loss	$ (4,066)	$ (5,880)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	2,256	7,303
Valuation allowance on foreclosed assets	1,139	
Valuation (gain) loss on mortgage servicing rights	(2)	2
Depreciation	311	390
Amortization, net	632	284
Net realized gain on sales of securities	(232)	(468)
Originations of loans held for sale	(27,562)	(57,088)
Proceeds from sale of loans held for sale	27,475	57,473
Net gain on sale of loans	(222)	(575)
Loss on disposal of premises and equipment		1
Loss on sale of assets held for sale	2	
Gain on sale of foreclosed assets	(8)	
Stock based compensation expense	33	(4)
Change in deferred income taxes (net of change in valuation allowance)		(30)
Net change in:		
Bank owned life insurance	(96)	(94)
Accrued interest receivable and other assets	(609)	(159)
Accrued interest payable and other liabilities	860	1,378
Net cash from operating activities	(89)	2,533
Cash flows from investing activities		
Net decrease in interest-bearing deposits in other financial institutions	(1,984)	
Available-for-sale securities:		
Sales	6,390	13,633
Maturities, prepayments and calls	7,331	4,291
Purchases	(4,550)	(26,484)
Loan originations and payments, net	30,027	8,853
Proceeds from sale of portfolio loans		10,074
Additions to premises and equipment	(53)	(49)
Proceeds from the sale of premises and equipment	533	
Proceeds from the sale of foreclosed assets	1,000	
Net cash from investing activities	38,694	10,318
Cash flows from financing activities		
Net change in deposits	(700)	26,595
Net change in short-term borrowings from the FHLB and other debt		(2,065)
Repayments on long-term FHLB advances and other debt	(8,200)	(6,000)

Net change in advances by borrowers for taxes and insurance		(164)		(68)
Cash dividends paid on preferred stock				(271)
Net cash from financing activities		(9,064)		18,191
Net change in cash and cash equivalents		29,541		31,042
Beginning cash and cash equivalents		34,275		2,973
Ending cash and cash equivalents	$	63,816	$	34,015
Supplemental cash flow information:				
Interest paid	$	2,523	$	3,167
Supplemental noncash disclosures:				
Transfers from loans to repossessed assets	$		$	2,348
Loans transferred from portfolio to held for sale				91

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation (the Holding Company) and its wholly owned subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC, together with the Holding Company referred to as the Company. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and in compliance with U.S. generally accepted accounting principles (GAAP). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of the management of the Company, the accompanying unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company s financial condition and the results of operations for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The financial performance reported for the Company for the three and nine months ended September 30, 2011 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company s latest Annual Report to Stockholders and Form 10-K. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company s 2010 Annual Report that was filed as Exhibit 13.1 to the Company s Form 10-K for the year ended December 31, 2010. The Company has consistently followed those policies in preparing this Form 10-Q.

Reclassifications: Some items in the prior period financial statements were reclassified to conform to the current presentation. Reclassifications did not impact prior period net loss or stockholders equity.

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share is net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and the stock warrant.

	Three months ended September 30,				Nine months ended September 30,			
	2011		2010		2011		2010	
Basic								
Net loss	$	(435)	$	(232)	$	(4,066)	$	(5,880)
Less: Preferred dividends and accretion of discount on preferred stock		(107)		(103)		(317)		(307)
Less: Net loss allocated to unvested share-based payment awards		3		2		27		17
Net loss allocated to common stockholders	$	(539)	$	(333)		(4,356)	$	(6,170)
Weighted average common shares outstanding		4,104,320		4,092,908		4,101,328		4,094,698
Basic loss per common share	$	(0.13)	$	(0.08)	$	(1.06)	$	(1.51)

Diluted				
Net loss allocated to common stockholders	$ (539)	$ (333)	$ (4,356)	$ (6,170)
Weighted average common shares outstanding for basic loss per common share	4,104,320	4,092,908	4,101,328	4,094,698
Add: Dilutive effects of assumed exercises of stock options				
Add: Dilutive effects of assumed exercises of stock warrant				
Average shares and dilutive potential common shares	4,104,320	4,092,908	4,101,328	4,094,698
Diluted loss per common share	$ (0.13)	$ (0.08)	$ (1.06)	$ (1.51)

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per common share because the Company reported a net loss for the periods presented.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Stock options	223,280	231,702	223,280	255,133
Stock warrant	336,568	336,568	336,568	336,568

Adoption of New Accounting Standards:

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02 to Receivables (ASC 310), *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring*. This ASU amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring (TDR). The amendments clarify the guidance for a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor s ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified TDRs, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. As a result of adopting the amendments in ASU No. 2011-02, CFBank reassessed all restructurings that occurred on or after the beginning of the current fiscal year (January 1, 2011) for identification as TDRs. CFBank identified as TDRs certain receivables for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those receivables as TDRs, CFBank identified them as impaired under the guidance in Section 310-10-35. The amendments in ASU No. 2011-02 require prospective application of the impairment measurement guidance in Section 310-10-35 for those receivables newly identified as impaired. At the end of the first interim period of adoption (September 30, 2011), the recorded investment in receivables for which the allowance for credit losses was previously measured under a general allowance for credit losses methodology and are now impaired under Section 310-10-35 was $4,763, and the allowance for credit losses associated with those receivables, on the basis of a current valuation of loss, was $685.

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In May 2011, the FASB issued ASU No. 2011-04 to Fair Value Measurement (ASC 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements is U.S. GAAP and IFRSs.* This ASU amends existing guidance to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on the consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In June 2011, the FASB issued ASU No. 2011-05 to Comprehensive Income (ASC 220), *Presentation of Comprehensive Income.* This ASU amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and are to be applied retrospectively. Early adoption is permitted. The adoption of this amendment will change the Company s presentation of the components of other comprehensive income, which is currently shown as part of the consolidated statement of changes in stockholder s equity.

In September 2011, the FASB issued ASU No. 2011-09 to Compensation Retirement Benefits Multiemployer Plans, (ASC 715), *Disclosures about an Employer s Participation in a Multiemployer Plan.* The amendments in this ASU require that employers who participate in multiemployer pension plans provide additional quantitative and qualitative disclosures. The amended disclosures will provide users with more detailed information about an employer s involvement in multiemployer pension plans, including: the plan names and identifying numbers, the level of an employer s participation in the plans including contributions, the financial health of the multiemployer plans including the funded status, and the nature of the employer commitments to the plan. The amendments in this update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 2 SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at September 30, 2011 and December 31, 2010 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 1,624	$ 208	$	$ 1,832
Collateralized mortgage obligations	17,974	255	37	18,192
Total	$ 19,598	$ 463	$ 37	$ 20,024

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2010				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 1,884	$ 223	$	$ 2,107
Collateralized mortgage obligations	26,242	463	14	26,691
Total	$ 28,126	$ 686	$ 14	$ 28,798

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at September 30, 2011 or December 31, 2010.

The proceeds from sales and calls of securities and the associated gains for the three and nine months ended September 30, 2011 and 2010 are listed below.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Proceeds	$ 8,036	$ 4,602	$ 8,036	$ 13,633
Gross gains	232	228	232	468
Gross losses				
Tax effect expense	$	$ 78	$	$ 159

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 2 SECURITIES (continued)

At September 30, 2011 and December 31, 2010, there were no debt securities contractually due at a single maturity date. The amortized cost and fair value of mortgage-backed securities and collateralized mortgage obligations which do not have a single maturity date, totaled $19,598 and $20,024 at September 30, 2011, respectively, and $28,126 and $28,798 at December 31, 2010, respectively.

Fair value of securities pledged was as follows:

	September 30, 2011	December 31, 2010
Pledged as collateral for:		
FHLB advances	$ 10,298	$ 10,657
Public deposits	2,804	4,210
Customer repurchase agreements	5,087	2,465
Interest-rate swaps	1,744	1,589
Total	$ 19,933	$ 18,921

At September 30, 2011 and December 31, 2010, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, in an amount greater than 10% of stockholders equity.

The following table summarizes securities with unrealized losses at September 30, 2011 and December 31, 2010 aggregated by major security type and length of time in a continuous unrealized loss position.

September 30, 2011	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored entities and agencies:						
Collateralized mortgage obligations	$ 3,560	$ 37	$	$	$ 3,560	$ 37
Total temporarily impaired	$ 3,560	$ 37	$	$	$ 3,560	$ 37

December 31, 2010	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored entities and agencies:						
Collateralized mortgage obligations	$ 2,091	$ 14	$	$	$ 2,091	$ 14

Total temporarily impaired	$	2,091	$	14	$		$		$	2,091	$	14

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 2 SECURITIES (continued)

The unrealized loss at September 30, 2011 is related to two Ginnie Mae collateralized mortgage obligations, and the unrealized loss at December 31, 2010 is related to one Ginnie Mae collateralized mortgage obligation. These securities carry the full faith and credit guarantee of the U.S. government. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at September 30, 2011.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 3 LOANS

The following table presents the recorded investment in loans by portfolio segment. The recorded investment in loans includes the principal balance outstanding adjusted for purchase premiums and discounts, deferred loan fees and costs and includes accrued interest.

	September 30, 2011	December 31, 2010
Commercial	$ 28,755	$ 38,194
Real estate:		
Single-family residential	18,916	23,273
Multi-family residential	29,081	35,308
Commercial	72,049	80,725
Construction		4,919
Consumer:		
Home equity lines of credit	15,400	16,316
Other	1,250	1,790
Subtotal	165,451	200,525
Less: Allowance for loan losses (ALLL)	(6,955)	(9,758)
Loans, net	$ 158,496	$ 190,767

Construction loans consisted of $2,324 in single-family residential loans and $2,595 in commercial real estate loans at December 31, 2010. There were no construction loans at September 30, 2011.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 3 LOANS (continued)

The ALLL is a valuation allowance for probable incurred credit losses in the loan portfolio based on management s evaluation of various factors including past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. A provision for loan losses is charged to operations based on management s periodic evaluation of these and other pertinent factors described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company s 2010 Annual Report that was filed as Exhibit 13.1 to the Company s Form 10-K for the year ended December 31, 2010.

The following tables present the activity in the ALLL by portfolio segment for the three and nine months ended September 30, 2011:

	Three months ended September 30, 2011						
	Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Home equity lines of credit	Other	Total
Beginning balance	$ 2,754	$ 242	$ 2,183	$ 2,632	$ 220	$ 19	$ 8,050
Addition to (reduction in) provision for loan losses	(266)	(54)	1,015	(387)	100	(3)	405
Charge-offs			(867)	(580)	(149)		(1,596)
Recoveries	29	2		47	15	1	94
Reclass of ALLL on loan-related commitments [(1)]	2						2
Ending balance	$ 2,519	$ 190	$ 2,331	$ 1,712	$ 186	$ 17	$ 6,955

(1) Reclassified from (to) accrued interest payable and other liabilities in the consolidated balance sheet

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CENTRAL FEDERAL CORPORATION
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NOTE 3 LOANS (continued)

	Nine months ended September 30, 2011							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home equity lines of credit	Other	Total
Beginning balance	$ 1,879	$ 241	$ 2,520	$ 4,719	$ 74	$ 303	$ 22	$ 9,758
Addition to (reduction in) provision for loan losses	1,679	(43)	1,926	(1,247)	(74)	12	3	2,256
Charge-offs	(1,140)	(14)	(2,117)	(1,930)		(149)	(18)	(5,368)
Recoveries	100	6	2	170		20	10	308
Reclass of ALLL on loan-related commitments [(1)]	1							1
Ending balance	$ 2,519	$ 190	$ 2,331	$ 1,712	$	$ 186	$ 17	$ 6,955

(1) Reclassified from (to) accrued interest payable and other liabilities in the consolidated balance sheet

Activity in the ALLL for the three and nine months ended September 30, 2010 was as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Beginning balance	$ 10,074	$ 7,090
Provision for loan losses	617	7,303
Loans charged-off	(702)	(4,515)
Recoveries	68	179
Ending balance	$ 10,057	$ 10,057

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NOTE 3 LOANS (continued)

The following table presents the balance in the ALLL and the recorded investment in loans by portfolio segment and based on the impairment method as of September 30, 2011:

		Real Estate			Consumer		
	Commercial	Single-family	Multi-family	Commercial	Home equity lines of credit	Other	Total
ALLL:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 628	$	$ 951	$ 140	$	$	$ 1,719
Collectively evaluated for impairment	1,891	190	1,380	1,572	186	17	5,236
Total ending allowance balance	$ 2,519	$ 190	$ 2,331	$ 1,712	$ 186	$ 17	$ 6,955
Loans:							
Individually evaluated for impairment	$ 1,690	$	$ 3,222	$ 5,446	$ 135	$	$ 10,493
Collectively evaluated for impairment	27,065	18,916	25,859	66,603	15,265	1,250	154,958
Total ending loan balance	$ 28,755	$ 18,916	$ 29,081	$ 72,049	$ 15,400	$ 1,250	$ 165,451

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NOTE 3 LOANS (continued)

The following table presents the balance in the ALLL and the recorded investment in loans by portfolio segment and based on the impairment method as of December 31, 2010:

			Real Estate			Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home equity lines of credit	Other	Total
ALLL:								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 332	$	$ 1,296	$ 1,276	$	$	$	$ 2,904
Collectively evaluated for impairment	1,547	241	1,224	3,443	74	303	22	6,854
Total ending allowance balance	$ 1,879	$ 241	$ 2,520	$ 4,719	$ 74	$ 303	$ 22	$ 9,758
Loans:								
Individually evaluated for impairment	$ 2,223	$ 142	$ 3,985	$ 4,250	$	$ 138	$	$ 10,738
Collectively evaluated for impairment	35,971	23,131	31,323	76,475	4,919	16,178	1,790	189,787
Total ending loan balance	$ 38,194	$ 23,273	$ 35,308	$ 80,725	$ 4,919	$ 16,316	$ 1,790	$ 200,525

CENTRAL FEDERAL CORPORATION
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NOTE 3 LOANS (continued)

The following table presents loans individually evaluated for impairment by class of loans at September 30, 2011. The unpaid principal balance is the contractual principal balance outstanding. The recorded investment is the unpaid principal balance adjusted for partial charge-offs, purchase premiums and discounts, deferred loan fees and costs and includes accrued interest. There was no cash-basis interest income recognized during the three and nine months ended September 30, 2011.

	As of September 30, 2011			Three months ended September 30, 2011		Nine months ended September 30, 2011	
	Unpaid Principal Balance	Recorded Investment	ALLL Allocated	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:							
Commercial	$ 1,416	$ 1,016	$	$ 1,248	$ 7	$ 515	$ 7
Real estate:							
Single-family residential						32	
Multi-family residential	96	96		787	1	262	1
Commercial:							
Non-owner occupied	2,983	1,422		2,236	9	796	9
Owner occupied	1,294	1,294		1,314	21	438	21
Land	798	682		684	11	688	32
Consumer:							
Home equity lines of credit:							
Originated for portfolio	135	135		135		136	
Total with no allowance recorded	6,722	4,645		6,404	49	2,867	70
With an allowance recorded:							
Commercial	1,564	674	628	515	8	1,163	8
Real estate:							
Single-family residential							
Multi-family residential	3,926	3,126	951	2,278		3,048	
Commercial:							
Non-owner occupied	2,156	2,048	140	1,379	31	1,752	31
Owner occupied				350		817	

Total with an allowance recorded	7,646	5,848	1,719	4,522	39	6,780	39
Total	$ 14,368	$ 10,493	$ 1,719	$ 10,926	$ 88	$ 9,647	$ 109

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NOTE 3 LOANS (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	ALLL Allocated
With no related allowance recorded:			
Commercial	$ 937	$ 587	$
Real estate:			
Single-family residential	461	142	
Commercial:			
Owner occupied	78	78	
Land	695	700	
Consumer:			
Home equity lines of credit:			
Originated for portfolio	138	138	
Total with no allowance recorded	2,309	1,645	
With an allowance recorded:			
Commercial	2,035	1,636	332
Real estate:			
Multi-family residential	3,996	3,985	1,296
Commercial:			
Non-owner occupied	2,551	2,419	1,244
Owner occupied	1,055	1,053	32
Total with an allowance recorded	9,637	9,093	2,904
Total	$ 11,946	$ 10,738	$ 2,904

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Average of individually impaired loans during the period	$ 11,342	$ 11,822
Interest income recognized during impairment	10	25
Cash-basis interest income recognized		

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NOTE 3 LOANS (continued)

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

	September 30, 2011	December 31, 2010
Nonaccrual loans:		
Commercial	$ 274	$ 2,084
Real estate:		
Single-family residential	707	266
Multi-family residential	3,126	3,986
Commercial:		
Non-owner occupied	913	2,419
Owner occupied		1,131
Consumer:		
Home equity lines of credit:		
Originated for portfolio	159	161
Purchased for portfolio	101	
Other consumer		10
Total nonaccrual loans	5,280	10,057
Total nonperforming loans	$ 5,280	$ 10,057

Nonaccrual loans include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. There were no loans 90 days or more past due and still accruing interest at September 30, 2011 or December 31, 2010.

The following table presents the aging of the recorded investment in past due loans as of September 30, 2011 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Nonaccrual Loans Not > 90 days Past Due
Commercial	$	$	$	$	$ 28,755	$ 274
Real estate:						
Single-family residential		773	535	1,308	17,608	172
Multi-family residential			3,126	3,126	25,955	
Commercial:						
Non-owner occupied		53	828	881	36,911	85
Owner occupied					28,680	
Land					5,577	
Consumer:						
Home equity lines of credit:						

Originated for portfolio						159		159		12,258		
Purchased for portfolio						101		101		2,882		
Other		2		31				33		1,217		
Total	$	2	$	857	$	4,749	$	5,608	$	159,843	$	531

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CENTRAL FEDERAL CORPORATION
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NOTE 3 LOANS (continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2010 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Nonaccrual Loans Not Past Due
Commercial	$ 449	$	$	$ 449	$ 37,745	$ 1,635
Real estate:						
Single-family residential	1,104	444	266	1,814	21,459	
Multi-family residential			1,242	1,242	34,066	2,744
Commercial:						
Non-owner occupied	1,188		2,419	3,607	36,687	
Owner occupied			1,053	1,053	33,516	78
Land					5,862	
Construction					4,919	
Consumer:						
Home equity lines of credit:						
Originated for portfolio	1	54		55	12,850	161
Purchased for portfolio					3,411	
Other	23	41		64	1,726	
Total	$ 2,765	$ 539	$ 4,980	$ 8,284	$ 192,241	$ 4,618

Nonaccrual loans include some loans that were modified and identified as TDRs, where concessions had been granted to borrowers experiencing financial difficulties. These concessions could have included a reduction in the interest rate, payment extensions, principal forgiveness, and other actions intended to maximize collection.

Nonaccrual TDRs were as follows:

	September 30, 2011	December 31, 2010
Commercial	$ 273	$ 1,597
Real estate:		
Single-family residential		142
Multi-family residential	719	2,744
Total	$ 992	$ 4,483

The Company allocated $70 and $714 of specific reserves to loans whose terms have been modified in TDRs and were nonaccrual as of September 30, 2011 and December 31, 2010, respectively. The Company has not committed to lend additional amounts as of September 30, 2011 or December 31, 2010 to customers with outstanding loans that are classified as nonaccrual TDRs.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS (continued)

Nonaccrual loans at September 30, 2011 and December 31, 2010, do not include $6,046 and $839, respectively of TDRs where customers have established a sustained period of repayment performance, generally six months, loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in impaired loan totals.

During the nine months ended September 30, 2011, the terms of certain loans were modified as TDRs. The modification of the terms of such loans may have included one or a combination of the following: a reduction of the stated interest rate of the loan; an increase in the stated rate of interest lower than the current market rate for new debt with similar risk; an extension of the maturity date; or a change in the payment terms.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 1 to 6 years. Modifications involving an extension of the maturity date were for periods ranging from 9 months to 10 years.

The following table presents loans by class modified as TDRs that occurred during the nine months ended September 30, 2011:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
TDRs:			
Commercial	4	$ 1,774	$ 1,524
Real estate:			
Multi-family residential	1	99	100
Commercial:			
Non-owner occupied	4	2,586	2,586
Owner occupied	3	1,355	1,355
Total	12	$ 5,814	$ 5,565

The TDRs described above increased the allowance for loan losses by $685 and did not result in any charge-offs during the nine months ended September 30, 2011.

There was one multi-family residential real estate loan with a total recorded investment of $718 at September 30, 2011 which had been modified as a TDR in October 2010 for which there was a payment default within twelve months following the modification during the nine months ended September 30, 2011. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms, at which time the loan is re-evaluated to determine whether an impairment loss should be recognized, either through a write-off or specific valuation allowance, so that the loan is reported, net, at the present value of estimated future cash flows, or at the fair value of collateral, less cost to sell, if repayment is expected solely from the collateral. The TDR that subsequently defaulted resulted in a charge-off of $800 during the three months ended September 30, 2011.

The terms of certain other loans were modified during the period ended September 30, 2011 that did not meet the definition of a TDR. These loans have a total recorded investment as of September 30, 2011 of $16,032. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties, a delay in a payment that was considered to be insignificant or there were no concessions granted.

CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 LOANS (continued)

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

Certain loans which were modified during the nine months ended September 30, 2011 and did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant had delays in payment ranging from 15 days to 6 months.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. Management analyzes loans individually by classifying the loans as to credit risk. This analysis includes commercial, commercial real estate, and multi-family loans. Groups of homogenous loans, such as single-family mortgage loans and consumer loans, are not risk-rated. This analysis is performed on an ongoing basis. The following definitions are used for risk ratings:

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

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

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

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NOTE 3 LOANS (continued)

Loans not meeting the criteria to be classified into one of the above categories are considered to be pass-rated loans. Loans listed as not rated are primarily groups of homogeneous loans. Past due information is the primary credit indicator for groups of homogenous loans. The recorded investment in loans by risk category and by class of loans as of September 30, 2011 and based on the most recent analysis performed follows. There were no loans rated doubtful at September 30, 2011.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 427	$ 21,009	$ 3,540	$ 3,779	$ 28,755
Real estate:					
Single-family residential	18,209			707	18,916
Multi-family residential		18,566	5,143	5,372	29,081
Commercial:					
Non-owner occupied	379	26,082	4,161	7,170	37,792
Owner occupied		22,822	4,389	1,469	28,680
Land	959	1,202		3,416	5,577
Consumer:					
Home equity lines of credit:					
Originated for portfolio	12,258			159	12,417
Purchased for portfolio	2,303		579	101	2,983
Other	1,250				1,250
	$ 35,785	$ 89,681	$ 17,812	$ 22,173	$ 165,451

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NOTE 3 LOANS (continued)

The recorded investment in loans by risk category and by class of loans as of December 31, 2010 follows. There were no loans rated doubtful at December 31, 2010.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 473	$ 26,102	$ 6,281	$ 5,338	$ 38,194
Real estate:					
Single-family residential	23,007			266	23,273
Multi-family residential		21,021	4,529	9,758	35,308
Commercial:					
Non-owner occupied	91	27,412	4,247	8,544	40,294
Owner occupied	499	27,253	5,090	1,727	34,569
Land	1,089	1,985		2,788	5,862
Construction		4,919			4,919
Consumer:					
Home equity lines of credit:					
Originated for portfolio	12,744			161	12,905
Purchased for portfolio	2,572		839		3,411
Other	1,780			10	1,790
	$ 42,255	$ 108,692	$ 20,986	$ 28,592	$ 200,525

Management s loan review process includes the identification of substandard loans where accrual of interest continues because the loans are under 90 days delinquent and/or the loans are well secured, a complete documentation review had been performed, and the loans are in the active process of being collected, but the loans exhibit some type of weakness that could lead to nonaccrual status in the future. At September 30, 2011, in addition to the nonperforming loans discussed previously, twelve commercial loans totaling $3,505, three multi-family residential real estate loans totaling $2,246 and seventeen commercial real estate loans totaling $11,142 were classified as substandard. None of these loans was 30 days or more past due at September 30, 2011. At December 31, 2010, in addition to the nonperforming loans discussed previously, nine commercial loans totaling $3,250, six multi-family residential real estate loans totaling $5,781 and eight commercial real estate loans totaling $9,504 were classified as substandard. One of these loans, totaling $1,183 was 37 days delinquent at December 31, 2010 and none of the remaining loans was 30 days or more past due.

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CENTRAL FEDERAL CORPORATION
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NOTE 4 FORECLOSED ASSETS

	September 30, 2011	December 31, 2010
Commercial	$	$ 1,000
Commercial real estate	3,509	3,509
Subtotal	3,509	4,509
Valuation allowance	(1,139)	
Total	$ 2,370	$ 4,509

Foreclosed assets at September 30, 2011 and December 31, 2010 included three commercial real estate properties, while foreclosed assets at December 31, 2010 also included inventory related to a commercial loan. During the nine months ended September 30, 2011, a $1,139 valuation allowance was established on one of the commercial real estate properties, undeveloped commercial real estate located in Columbus, Ohio, due to a decline in real estate values. A $1,139 charge resulting from this valuation allowance is included in foreclosed assets expense in the consolidated statement of operations.

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NOTE 5 FAIR VALUE

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

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

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

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

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

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

Derivatives: The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2).

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

Loan servicing rights: Fair value is based on a valuation model that calculates the present value of estimated future net servicing income (Level 2).

Loans held for sale: Loans held for sale are carried at fair value as determined by outstanding commitments from third party investors (Level 2).

Foreclosed assets: Nonrecurring adjustments to certain commercial real estate properties classified as foreclosed assets are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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NOTE 5 FAIR VALUE (continued)

Assets and Liabilities Measured on a Recurring Basis

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

		Fair Value Measurements at September 30, 2011 Using Significant Other Observable Inputs (Level 2)
Financial Assets:		
Securities available for sale:		
Issued by U.S. government-sponsored entities and agencies:		
Mortgage-backed securities residential	$	1,832
Collateralized mortgage obligations		18,192
Total securities available for sale	$	20,024
Loans held for sale	$	2,262
Yield maintenance provisions (embedded derivatives)	$	1,023
Interest rate lock commitments	$	39
Financial Liabilities:		
Interest-rate swaps	$	1,023

		Fair Value Measurements at December 31, 2010 Using Significant Other Observable Inputs (Level 2)
Financial Assets:		
Securities available for sale:		
Issued by U.S. government-sponsored entities and agencies:		
Mortgage-backed securities residential	$	2,107
Collateralized mortgage obligations		26,691

Total securities available for sale	$	28,798
Loans held for sale	$	1,953
Yield maintenance provisions (embedded derivatives)	$	686
Interest rate lock commitments	$	41
Financial Liabilities:		
Interest-rate swaps	$	686

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NOTE 5 FAIR VALUE (continued)

No assets or liabilities measured at fair value on a recurring basis were measured using Level 1 or Level 3 inputs at September 30, 2011 or December 31, 2010.

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at September 30, 2011 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 7	
Impaired loans:		
Commercial		$ 246
Real Estate:		
Multi-family residential		2,175
Commercial:		
Non-owner occupied		2,640
Land		240
Total impaired loans		$ 5,301
Foreclosed assets:		
Land		$ 1,209

	Fair Value Measurements at December 31, 2010 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 17	
Impaired loans:		
Commercial		$ 1,591
Real estate:		
Single-family residential		142

Multi-family residential		2,690
Commercial:		
Non-owner occupied		1,176
Owner occupied		1,020
Total impaired loans	$	6,619

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 FAIR VALUE (continued)

At September 30, 2011 and December 31, 2010, the Company had no assets or liabilities measured at fair value on a non-recurring basis that were measured using Level 1 inputs.

Impaired loan servicing rights, which are carried at fair value, were carried at $7, which was made up of the amortized cost of $9, net of a valuation allowance of $2 at September 30, 2011. At December 31, 2010, impaired loan servicing rights were carried at $17, which was made up of the amortized cost of $22, net of a valuation allowance of $5. There was no charge against earnings with respect to servicing rights for the three months ended September 30, 2011, and a $3 increase in earnings for the nine months ended September 30, 2011. There was a $1 charge against earnings with respect to servicing rights for the three months ended September 30, 2010, and a $3 charge against earnings for the nine months ended September 30, 2010.

Impaired loans carried at the fair value of the collateral for collateral dependent loans, had an unpaid principal balance of $10,887 with a valuation allowance of $1,719, resulting in a $379 additional provision recorded for impairment charges for the quarter ended September 30, 2011, and a $1,179 reduction in the valuation allowance for the nine months ended September 30, 2011. Impaired loans carried at the fair value of collateral had an unpaid principal balance of $10,693 with a valuation allowance of $2,898 at December 31, 2010. For the quarter ended September 30, 2010 there was an additional provision recorded for impairment charges of $171, and an additional provision of $936 recorded for impairment charges for the nine months ended September 30, 2010.

Foreclosed assets which are carried at fair value less costs to sell, were carried at $1,209, which was made up of the outstanding balance of $2,348, net of a valuation allowance of $1,139 at September 30, 2011, resulting in a charge of $1,139 for the nine months ended September 30, 2011. There was no charge against earnings for the three months ended September 30, 2011. There were no foreclosed assets measured at fair value in the prior year periods.

During the nine months ended September 30, 2011, the Company did not have any significant transfers of assets or liabilities between those measured using Level 1 or 2 inputs. The Company recognizes transfers of assets and liabilities between Level 1 and 2 inputs based on the information relating to those assets and liabilities at the end of the reporting period.

The carrying amounts and estimated fair values of financial instruments at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 63,816	$ 63,816	$ 34,275	$ 34,275
Interest-bearing deposits in other financial institutions	1,984	1,984		
Securities available for sale	20,024	20,024	28,798	28,798
Loans held for sale	2,262	2,262	1,953	1,953
Loans, net	158,496	162,883	190,767	194,970
FHLB stock	1,942	n/a	1,942	n/a
Accrued interest receivable	96	96	119	119
Yield maintenance provisions (embedded derivatives)	1,023	1,023	686	686
Interest rate lock commitments	39	39	41	41
Financial liabilities				
Deposits	$ (226,744)	$ (229,516)	$ (227,381)	$ (228,859)

FHLB advances	(15,742)	(16,391)	(23,942)	(24,656)
Subordinated debentures	(5,155)	(2,546)	(5,155)	(2,653)
Accrued interest payable	(342)	(342)	(191)	(191)
Interest-rate swaps	(1,023)	(1,023)	(686)	(686)

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NOTE 5 FAIR VALUE (continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest-bearing deposits in other financial institutions, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. Fair value of loans held for sale is based on binding quotes from third party investors. For fixed rate loans or deposits and for variable rate loans with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of Federal Home Loan Bank (FHLB) advances and other borrowings are based on current rates for similar financing. Fair value of subordinated debentures is based on discounted cash flows using current market rates for similar debt. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The method for determining the fair values for derivatives (interest-rate swaps, interest rate lock commitments and yield maintenance provisions) was described previously. The fair value of off-balance sheet items is not considered material.

NOTE 6 FHLB ADVANCES

Advances from the FHLB were as follows:

	Rate	September 30, 2011	December 31, 2010
Fixed-rate advances:			
Maturing March 2011	1.90%	$	$ 2,200
Maturing April 2011	2.88%		3,000
Maturing July 2011	3.85%		3,000
Maturing April 2012	2.30%	5,000	5,000
Maturing June 2012	2.05%	742	742
Maturing January 2014	3.12%	5,000	5,000
Maturing May 2014	3.06%	5,000	5,000
Total		$ 15,742	$ 23,942

Each advance is payable at its maturity date, with a prepayment penalty for fixed-rate advances.

The advances were collateralized as follows:

	September 30, 2011	December 31, 2010
First mortgage loans under a blanket lien arrangement	$ 11,567	$ 14,922
Multi-family mortgage loans	4,010	10,670
Commercial real estate loans	3,415	1,985
Securities	10,298	10,657
Cash	800	800
Total	$ 30,090	$ 39,034

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NOTE 6 FHLB ADVANCES (continued)

Based on the collateral pledged to FHLB and CFBank s holdings of FHLB stock, CFBank was eligible to borrow up to a total of $20,601 from the FHLB at September 30, 2011. In May 2011, CFBank was notified by the FHLB that, due to regulatory considerations, CFBank is only eligible for future advances with a maximum maturity of one year.

Payment information

Payments over the next five years are as follow:

September 30, 2012	$	5,742
September 30, 2014		10,000
Total	$	15,742

NOTE 7 OTHER BORROWINGS

There were no outstanding borrowings with the Federal Reserve Bank (FRB) at September 30, 2011 or at December 31, 2010.

Assets pledged as collateral with the FRB were as follows:

		September 30, 2011		December 31, 2010
Commercial loans	$	7,088	$	13,131
Commercial real estate loans		21,503		26,214
	$	28,591		39,345

Based on the collateral pledged, CFBank was eligible to borrow up to $14,993 from the FRB at September 30, 2011. The decline in the pledged loan balances at September 30, 2011 was related to a decline in eligible loans due to principal reductions, payoffs and credit downgrades compared to December 31, 2010. In April 2011, CFBank was notified by the FRB that, due to regulatory considerations, it was no longer eligible for borrowings under the FRB s Primary Credit Program, but was only eligible to borrow under the FRB s Secondary Credit Program. Under the FRB s Primary Credit Program, CFBank had access to short-term funds at any time, for any reason based on the collateral pledged. Under the Secondary Credit Program, which involves a higher level of administration, each borrowing request must be individually underwritten and approved by the FRB, CFBank s collateral is automatically reduced by 10% and the cost of borrowings is 50bp higher.

CFBank has a line of credit with one commercial bank, totaling $1,000 at September 30, 2011. At September 30, 2011 there was no outstanding balance on this line of credit. CFBank had a line of credit with another commercial bank, totaling $3,000 at December 31, 2010, which was terminated by the commercial bank in March 2011 due to CFBank s financial performance. At December 31, 2010 and at termination, there was no outstanding balance on this line of credit.

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NOTE 8 SUBORDINATED DEBENTURES

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

The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $1, on or after December 30, 2008 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on December 30, 2033. The subordinated debentures are also redeemable in whole or in part, from time to time, upon the occurrence of specific events defined within the trust indenture. There are no required principal payments on the subordinated debentures over the next five years. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The Company s Board of Directors elected to defer interest payments beginning with the quarterly payment due on December 31, 2010 in order to preserve cash at the Holding Company. As of September 30, 2011, four quarterly interest payments had been deferred. Cumulative deferred interest payments totaled $166 at September 30, 2011 and $40 at December 31, 2010.

The trust preferred securities and subordinated debentures have a variable rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85%. The total rate in effect was 3.10% at September 30, 2011 and 3.15% at December 31, 2010.

Pursuant to the Holding Company Order, as defined in Note 12 Regulatory Matters, the Holding Company may not, directly or indirectly, incur, issue, renew, rollover, or pay interest or principal on any debt (including the subordinated debentures) or commit to do so, increase any current lines of credit, or guarantee the debt of any entity, without prior written notice to and written non-objection from the Board of Governors of the Federal Reserve System.

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NOTE 9 STOCK-BASED COMPENSATION

The Company has three stock-based compensation plans (the Plans), as described below, under which awards have been or may be issued. Total compensation cost that was charged against income for those Plans totaled $8 and $34, respectively, for the three and nine months ended September 30, 2011. Total compensation cost that was charged (credited) to income for those Plans was $6 and ($6), respectively, for the three and nine months ended September 30, 2010. Compensation cost resulted in a credit to income for the nine months ended September 30, 2010 due to forfeitures of previous stock option grants and restricted stock awards in excess of the cost of those earned during the periods. The total income tax (expense) benefit was $1 and $7, respectively, for the three and nine months ended September 30, 2011, and $1 and ($1), respectively, for the three and nine months ended September 30, 2010.

The Plans, which are stockholder-approved, provide for stock option grants and restricted stock awards to directors, officers and employees. The 1999 Stock-Based Incentive Plan, which expired July 13, 2009, provided 193,887 shares for stock option grants and 77,554 shares for restricted stock awards. The 2003 Equity Compensation Plan (2003 Plan), as amended and restated, provided an aggregate of 500,000 shares for stock option grants and restricted stock awards, of which up to 150,000 shares could be awarded in the form of restricted stock awards. The 2009 Equity Compensation Plan, which was approved by stockholders on May 21, 2009, replaced the 2003 Plan and provides 1,000,000 shares, plus any remaining shares available to grant or that are later forfeited or expire under the 2003 Plan, that may be issued as stock option grants, stock appreciation rights or restricted stock awards.

Stock Options

The Plans permit the grant of stock options to directors, officers and employees for up to 1,693,887 shares of common stock, net of restricted stock awards. Option awards are granted with an exercise price equal to the market price of the Company s common stock on the date of grant, generally have vesting periods ranging from one to three years and are exercisable for ten years from the date of grant. Unvested stock options immediately vest upon a change in control.

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

The fair value of the options granted during the three and nine months ended September 30, 2011 and 2010 was determined using the following weighted-average assumptions as of the grant dates.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Risk-free interest rate	n/a	2.38%	2.98%	2.38%
Expected term (years)	n/a	7	7	7
Expected stock price volatility	n/a	47%	46%	47%
Dividend yield	n/a	3.45%	1.41%	3.45%

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NOTE 9 STOCK-BASED COMPENSATION (continued)

A summary of stock option activity in the Plans for the nine months ended September 30, 2011 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding at beginning of year	269,776	$ 6.04		
Granted	6,300	1.70		
Exercised				
Expired				
Cancelled or Forfeited	(52,796)	10.58		
Outstanding at end of year	223,280	$ 4.84	6.7	$
Expected to vest	89,350	$ 0.97	9.1	$
Exercisable at end of period	133,930	$ 7.43	5.1	$

During the nine months ended September 30, 2011, there were 52,796 stock options canceled or forfeited. Previously recognized expense associated with nonvested forfeited shares is reversed.

Information related to the Plans during the three and nine months ended September 30, 2011 and 2010 follows.

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Weighted average fair value of options granted	n/a	$ 0.51	$ 0.75	$ 0.51

As of September 30, 2011, there was $13 of total unrecognized compensation cost related to nonvested stock options granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.5 years. Substantially all of the 89,350 nonvested stock options at September 30, 2011 are expected to vest.

Restricted Stock Awards

The Plans permit the grant of restricted stock awards to directors, officers and employees. Compensation is recognized over the vesting period of the shares based on the fair value of the stock at grant date. The fair value of the stock was determined using the closing share price on the date of grant and shares have vesting periods ranging from one to three years. There were 1,151,158 shares available to be issued, net of option awards under the Plans at September 30, 2011. There were no shares issued during the nine months ended September 30, 2011.

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NOTE 9 STOCK-BASED COMPENSATION (continued)

A summary of changes in the Company s nonvested restricted shares for the nine months ended September 30, 2011 follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2011	38,418	$ 1.54
Granted		
Vested	(14,418)	1.82
Forfeited		
Nonvested at September 30, 2011	24,000	$ 1.38

As of September 30, 2011, there was $16 of total unrecognized compensation cost related to nonvested shares granted under the Plans. The cost is expected to be recognized over a weighted-average period of 1.4 years. The total fair value of shares vested during the three and nine months ended September 30, 2011 was $2 and $14, respectively. The total fair value of shares vested during the nine months ended September 30, 2010 was $24. There were no shares vested during the three months ended September 30, 2010.

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NOTE 10 PREFERRED STOCK

On December 5, 2008, in connection with the Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company issued to Treasury 7,225 shares of Central Federal Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Preferred Stock) for $7,225. The Preferred Stock initially pays quarterly dividends at a five percent annual rate, which increases to nine percent after February 14, 2014, on a liquidation preference of $1,000 per share. The Preferred Stock has preference over the Company s common stock with respect to the payment of dividends and distribution of the Company s assets in the event of a liquidation or dissolution. Except in certain circumstances, the holders of Preferred Stock have no voting rights. If any quarterly dividend payable on the Preferred Stock is in arrears for six or more quarterly dividend periods (whether consecutive or not), the holders will be entitled to vote for the election of two additional directors. These voting rights terminate when the Company has paid the dividends in full. The Holding Company s Board of Directors elected to defer the dividends beginning with the dividend payable on November 15, 2010 in order to preserve cash at the Holding Company. As of September 30, 2011, four quarterly dividend payments had been deferred. Cumulative deferred dividends totaled $370 at September 30, 2011 and $90 at December 31, 2010. Although deferred, the dividends have been accrued with an offsetting charge to accumulated deficit.

As required under the TARP Capital Purchase Program in connection with the sale of the Preferred Stock to Treasury, dividend payments on, and repurchases of, the Company s outstanding preferred and common stock are subject to certain restrictions. For as long as any Preferred Stock is outstanding, no dividends may be declared or paid on the Company s outstanding common stock until all accrued and unpaid dividends on Preferred Stock are fully paid. In addition, Treasury s consent is required on any increase in quarterly dividends declared on shares of common stock in excess of $.05 per share before December 5, 2011, the third anniversary of the issuance of the Preferred Stock, unless the Preferred Stock is redeemed by the Company or transferred in whole by Treasury. Further, Treasury s consent is required for any repurchase of any equity securities or trust preferred securities, except for repurchases of Preferred Stock or repurchases of common shares in connection with benefit plans consistent with past practice, before December 5, 2011, the third anniversary of the issuance of the Preferred Stock, unless redeemed by the Company or transferred in whole by Treasury.

As a recipient of funding under the TARP Capital Purchase Program, the Company must comply with the executive compensation and corporate governance standards imposed by the American Recovery and Reinvestment Act of 2009 for as long as Treasury holds the above securities.

Pursuant to the Holding Company Order, the Holding Company may not declare, make, or pay any cash dividends (including dividends on the Preferred Stock, or its common stock) or other capital distributions or purchase, repurchase or redeem or commit to purchase, repurchase, or redeem any Holding Company equity stock without the prior written non-objection of the Board of Governors of the Federal Reserve System.

NOTE 11 COMMON STOCK WARRANT

In connection with the issuance of the Preferred Stock, the Company also issued to Treasury a warrant to purchase 336,568 shares of the Company s common stock at an exercise price of $3.22 per share, which would represent an aggregate investment, if exercised for cash, of approximately $1,100 in Company common stock. The exercise price may be paid either by withholding a number of shares of common stock issuable upon exercise of the warrant equal to the value of the aggregate exercise price of the warrant, determined by reference to the market price of the Company s common stock on the trading day on which the warrant is exercised, or, if agreed to by the Company and the warrant holder, by the payment of cash equal to the aggregate exercise price. The warrant may be exercised any time before December 5, 2018.

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