CENTRAL FEDERAL CORP
Form 10-Q
May 15, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISION

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 March 31, 2013

Or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the transition period from __________ to______________

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	34-1877137
(State or other jurisdiction of	(IRS Employer

incorporation or organization) 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 [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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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

As of May 15, 2013, there were 15,823,710 shares of the registrant’s Common Stock outstanding.

CENTRAL FEDERAL CORPORATION

CENTRAL FEDERAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 14,406	$ 25,152
Interest-bearing deposits in other financial institutions	2,726	2,726
Securities available for sale	14,493	17,639
Loans held for sale	2,135	623
Loans, net of allowance of $5,682 and $5,237	166,799	153,043
FHLB stock	1,942	1,942
Foreclosed assets, net	1,464	1,525
Premises and equipment, net	5,269	5,317
Assets held for sale	167	167
Other intangible assets	40	49
Bank owned life insurance	4,437	4,405
Accrued interest receivable and other assets	2,561	2,447
	$ 216,439	$ 215,035
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 15,451	$ 18,008
Interest bearing	153,279	155,500
Total deposits	168,730	173,508
FHLB advances	15,955	10,000
Other borrowings	1,000	-
Advances by borrowers for taxes and insurance	174	241
Accrued interest payable and other liabilities	2,557	2,488
Subordinated debentures	5,155	5,155
Total liabilities	193,571	191,392
Stockholders' equity		
Common stock, $.01 par value, shares authorized; 50,000,000 shares issued; 15,935,417 in 2013 and 15,936,417 in 2012	159	159
Additional paid-in capital	47,929	47,919
Accumulated deficit	(22,107)	(21,297)
Accumulated other comprehensive income	132	107
Treasury stock, at cost; 111,707 shares	(3,245)	(3,245)

Total stockholders' equity	22,868	23,643
	$ 216,439	$ 215,035

See accompanying notes to consolidated financial statements.

3

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended March 31, 2013	2012
Interest and dividend income		
Loans, including fees	$ 1,596	$ 1,891
Securities	60	63
FHLB stock dividends	21	22
Federal funds sold and other	34	40
	1,711	2,016
Interest expense		
Deposits	408	593
Long-term FHLB advances and other debt	76	109
Subordinated debentures	41	47
	525	749
Net interest income	1,186	1,267
Provision for loan losses	326	200
Net interest income after provision for loan losses	860	1,067
Noninterest income		
Service charges on deposit accounts	73	59
Net gains on sales of loans	6	43
Loan servicing fees, net	-	8
Earnings on bank owned life insurance	32	33
Other	22	15
	133	158
Noninterest expense		
Salaries and employee benefits	892	991
Occupancy and equipment	75	74
Data processing	163	142
Franchise taxes	85	55
Professional fees	212	218
Director fees	5	45

Postage, printing and supplies		58		48
Advertising and promotion		6		3
Telephone		16		17
Loan expenses		17		8
Foreclosed assets, net		(19)		18
Depreciation		54		67
FDIC premiums		111		156
Amortization of intangibles		9		10
Regulatory assessment		39		45
Other insurance		37		42
Other		43		25
		1,803		1,964
Income (loss) before incomes taxes		(810)		(739)
Income tax expense (benefit)		-		-
Net loss		(810)		(739)
Preferred stock dividends and accretion of discount on preferred stock		-		(110)
Earnings (loss) attributable to common stockholders	$	(810)	$	(849)
Earnings (loss) per common share:				
Basic	$	(0.05)	$	(1.03)
Diluted	$	(0.05)	$	(1.03)

See accompanying notes to consolidated financial statements.

4

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended March 31,	
	2013	2012
Net income (loss)	$ (810)	$ (739)
Other comprehensive income (loss):		
Change in unrealized holding gains (losses) on securities available for sale	25	107
Reclassification adjustment for gains realized in income	-	-
Net change in unrealized gains (losses)	25	107
Tax effect	-	-
Other comprehensive income (loss)	25	107
Comprehensive income (loss)	$ (785)	$ (632)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2013	$ 159	$ 47,919	$ (21,297)	$ 107	$ (3,245)	$ 23,643
Net loss			(810)			(810)
Other comprehensive Income				25		25
Release of 100 stock-based incentive plan shares, net of forfeitures		(6)				(6)
Stock option expense, net of forfeitures		27				27
Offering costs associated with issuance of common stock		(11)				(11)
Balance at March 31, 2013	$ 159	$ 47,929	$ (22,107)	$ 132	$ (3,245)	$ 22,868

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumlated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2012	$ 7,120	$ 9	$ 27,837	$ (22,163)	$ 386	$ (3,245)	$ 9,944
Net loss				(739)			(739)
Other comprehensive income					107		107
Accretion of discount on preferred stock	13			(13)			-
Release of 600 stock-based incentive plan shares			3				3
			3				3

Stock option expense, net of forfeitures							
Preferred stock dividends				(97)			(97)
Balance at March 31, 2012	$ 7,133	$ 9	$ 27,843	$ (23,012)	$ 493	$ (3,245)	$ 9,221

See accompanying notes to consolidated financial statements.

6

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Three months ended March 31, 2013	2012
Net loss	$ (810)	$ (739)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	326	200
Valuation (gain) loss on mortgage servicing rights	-	(1)
Depreciation	54	67
Amortization, net	134	177
Originations of loans held for sale	(4,658)	(6,180)
Proceeds from sale of loans held for sale	3,152	6,490
Net gains on sales of loans	(6)	(43)
Loss on disposal of premises and equipment	-	4
Gain on sale of foreclosed assets	(21)	-
Earnings on bank owned life insurance	(32)	(33)
Stock-based compensation expense	21	6
Net change in:		
Accrued interest receivable and other assets	(116)	(280)
Accrued interest payable and other liabilities	68	359
Net cash from (used by) operating activities	(1,888)	27
Cash flows from investing activities		
Available-for-sale securities:		
Maturities, prepayments and calls	3,076	2,906
Purchases	-	(2,537)
Loan originations and payments, net	(14,094)	10,708
Additions to premises and equipment	(6)	(22)
Proceeds from the sale of foreclosed assets	68	-
Proceeds from mortgage insurance on foreclosed assets	14	-
Net cash from (used by) investing activities	(10,942)	11,055
Cash flows from financing activities		
Net change in deposits	(4,793)	(9,199)
Net change in short-term borrowings from the FHLB and other debt	6,955	-
Net change in advances by borrowers for taxes and insurance	(67)	(35)
Cost associated with issuance of common stock	(11)	-

Net cash from (used by) financing activities	2,084	(9,234)
Net change in cash and cash equivalents	(10,746)	1,848
Beginning cash and cash equivalents	25,152	61,436
Ending cash and cash equivalents	$ 14,406	$ 63,284
Supplemental cash flow information:		
Interest paid	$ 479	$ 670
Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	$ -	$ 83
Loans transferred from held for sale to portfolio	-	(109)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation (the Holding Company) and its wholly owned 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 months ended March 31, 2013 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 2012 Annual Report that was filed as Exhibit 13.1 to the Company's Form 10-K for the year ended December 31, 2012. The Company has consistently followed those policies in preparing this Form 10-Q.

Reclassifications and Reverse Stock Split: 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 total stockholders' equity. On May 4, 2012, the Company completed a 1-for-5 reverse stock split, whereby every 5 shares of the Company's common stock were reclassified into one share of common stock. All share and per share amounts for all periods presented have been adjusted to reflect the reverse split as though it had occurred prior to the earliest period presented.

Earnings (Loss) Per Common Share: The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common stockholders for the period are allocated between common stockholders and participating securities (unvested share-based payment awards) according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	Three months ended March 31, 2013	2012
Basic		
Net loss	$ (810)	$ (739)
Less: Preferred dividends and accretion of discount on preferred stock	-	(110)
Less: Net loss allocated to unvested share-based payment awards	-	3
Net loss allocated to common stockholders	$ (810)	$ (846)
Weighted average common shares outstanding including unvested share-based payment awards	15,824,181	825,447
Less: Unvested share-based payment awards	(854)	(3,300)
Average shares	15,823,327	822,147
Basic loss per common share	$ (0.05)	$ (1.03)
Diluted		
Net loss allocated to common stockholders	$ (810)	$ (846)
Weighted average common shares outstanding for basic loss per common share	15,823,327	822,147
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	15,823,327	822,147
Diluted loss per common share	$ (0.05)	$ (1.03)

The following stock options and warrant were not considered in computing diluted earnings (loss) per common share because the options or warrant were anti-dilutive or the Company reported a net loss for the periods presented.

	Three months ended March 31, 2013	2012
Stock options	259,076	43,066
Stock warrant	-	67,314

Adoption of New Accounting Standards:

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220); Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2015. The adoption of this ASU did not have a material impact on the Company, however, disclosures have been presented as part of notes to the financial statements.

NOTE 2- REGULATORY ORDER CONSIDERATIONS

Regulatory Order Considerations: On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the Holding Company Order and the CFBank Order, respectively, and collectively, the Orders) by the Office of Thrift Supervision (OTS), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), the FED replaced the OTS as the primary regulator of the Holding

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Company and the Office of the Comptroller of the Currency (OCC) replaced the OTS as the primary regulator of CFBank.

The Holding Company Order requires it, among other things, to: (i) submit by every December 31 a capital plan to regulators that establishes a minimum tangible capital ratio commensurate with the Holding Company's consolidated risk profile, reduces the risk from current debt levels and addresses the Holding Company's cash flow needs; (ii) not pay cash dividends, redeem stock or make any other capital distributions without prior regulatory approval; (iii) not pay interest or principal on any debt or increase any Holding Company debt or guarantee the debt of any entity without prior regulatory approval; (iv) obtain prior regulatory approval for changes in directors and senior executive officers; and (v) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators.

The CFBank Order requires it, among other things, to: (i) maintain 8% core capital and 12% total risk-based capital, after establishing an adequate allowance for loan and lease losses; (ii) submit every December 31 a capital and business plan to regulators that describes strategies to meet these required capital ratios and contains operating strategies to achieve realistic core earnings; (iii) raise capital to reach the required levels; (iv) not originate, participate in or acquire any nonresidential real estate loans or commercial loans not in line with agreed Board approval conditions, loan policies and credit administration procedures; (v) adopt a revised credit administration policy, problem asset reduction plan, management succession plan and liquidity management policy; (vi) limit asset growth in line with the Business Plan absent prior regulatory approval for additional growth; (vii) not pay cash dividends or make any other capital distributions without prior regulatory approval; (viii) obtain prior regulatory approval for changes in directors and senior executive officers; (ix) not enter into any new contractual arrangement related to compensation or benefits with any director or senior executive officer without prior notification to regulators; (x) not enter into any significant arrangement or contract with a third party service provider without prior regulatory approval; and (xi) comply with the Federal Deposit Insurance Corporation (FDIC) limits on brokered deposits. As a result of the CFBank Order, we are prohibited from offering above-market interest rates and are subject to market rates published by the FDIC when offering deposits to the general public. As a result of the CFBank Order, CFBank is considered "adequately capitalized" for regulatory purposes. If CFBank's capital falls below the levels to be considered adequately capitalized, it may be subject to substantially greater regulatory scrutiny, including the imposition of additional restrictions on our operations.

The Company has been unprofitable for the past three years. If we do not generate profits in the future, our capital levels will be negatively impacted and the regulators could take additional enforcement action against us, including the imposition of further operating restrictions.

Because CFBank is under a regulatory order, it is prohibited from accepting or renewing brokered deposits, including reciprocal deposits in the Certificate of Deposit Account Registry Service (CDARS) program, without FDIC approval. CFBank received limited waivers from the prohibition on renewal of reciprocal CDARS deposits from the FDIC, each for 90 day periods, commencing in June, 2011, through the current 90-day waiver period which runs through June 12, 2013. Management intends to submit additional requests for waivers in the future; however, there can be no assurance that the additional requests will be granted by the FDIC or that customers will roll over their CDARS deposits even if CFBank is granted additional waivers.

The prohibition on brokered deposits significantly limits CFBank's ability to participate in the CDARS program and impacts CFBank's liquidity management. The Company monitors on-balance-sheet liquidity to deal with scheduled brokered deposit maturities and the potential impact of other regulatory restrictions on liquidity. At March 31, 2013, CFBank had $27,760 in brokered deposits with maturity dates from April 2013 through August 2016. At March 31, 2013, cash, unpledged securities and deposits in other financial institutions totaled $18,781. Brokered deposit maturities over the next four years are as follows:

March 31, 2014	$	17,709
March 31, 2015		440
March 31, 2016		9,412
March 31, 2017		199
		27,760

Pursuant to the CFBank Order, CFBank may not declare or pay dividends or make any other capital distributions without receiving the prior written approval of the OCC. Future dividend payments by CFBank to the Holding Company would be

10

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

based on future earnings and the approval of the OCC. The payment of dividends from CFBank to the Holding Company is not likely to be approved by the OCC while CFBank is suffering losses.

The directives contained in the Orders, including higher capital requirements, requirements to reduce the level of our classified and criticized assets and various operating restrictions, may impede our full ability to operate our business and compete effectively in our markets.

We have taken such actions as we believe are necessary to comply with all requirements of the Orders which are currently effective and we are continuing to work toward compliance with the provisions of the Orders having future compliance dates.

We have received or provided all required approvals, non-objections, notifications and waivers with regard to the Orders. Details of these items are disclosed in Note 2- Regulatory Order Considerations, filed in the December 31, 2012 Form 10-K.

The requirements of the Orders will remain in effect until terminated, modified or suspended by our regulators.

Capital Raise: The Company announced the terms of a registered common stock offering on August 9, 2011. This offering was unsuccessful and in April 2012, the Company suspended this offering and returned all subscriptions received. The Company subsequently modified the terms of the offering and filed post-effective amendments to its registration statement with the SEC, and the amended registration statement was declared effective on June 14, 2012.

The restructured registered common stock offering consisted of a rights offering of up to $18,000 and a $4,500 offering to a group of standby purchasers, as well as a public offering of any unsold shares. Under the terms of the rights offering, all holders of the Company's common stock as of the record date, June 14, 2012, received, at no charge, one subscription right for each share of common stock held as of the record date, which was after the 1 for 5 reverse stock split effective May 4, 2012. Each subscription right entitled the holder of the right to purchase 14.5329 shares of Company common stock (post-split) at a subscription price of $1.50 per share (post-split). The rights offering period expired on July 16, 2012, and unsubscribed shares were made available to the public beginning on July 17, 2012, at $1.50 per share. The public offering of unsubscribed shares of common stock ended on August 14, 2012. The Company separately entered into a series of standby purchase agreements with a group of investors led by Timothy T. O'Dell, Thad R. Perry and Robert E. Hoeweler. Under the standby purchase agreements, the standby purchasers agreed to purchase 3.0 million shares of Company common stock at a price of $1.50 per share. The standby purchasers had conditioned their purchase of shares of common stock upon the receipt by the Company of at least $13,500 in net proceeds from the rights offering and public offering.

On August 20, 2012, the Company announced the successful completion of its restructured registered common stock offering. The Company sold 15.0 million shares of its common stock (including shares sold to the standby purchasers) at $1.50 per share, resulting in gross proceeds of $22,500 before expenses of $2,279.

A portion of the proceeds from the restructured registered common stock offering was retained by the Holding Company for general corporate purposes and is estimated to be sufficient to support the Holding Company's cash requirements for the foreseeable future based on its current business plan. Holding Company cash provided from net proceeds of the stock offering was reduced by $3,000 for redemption of the Company's TARP obligations from the U.S. Treasury and a $13,500 capital contribution to CFBank to improve its capital ratios and support future growth and expansion, bringing CFBank into compliance with the capital ratios required by the CFBank Order. See Note 10 – Preferred Stock for additional information on redemption of the TARP obligations. The Holding Company's current cash requirements include debt service on the subordinated debentures and operating expenses. See Note 8 – Subordinated Debentures for additional information on debt service requirements of the subordinated debentures. Management believes the Holding Company's liquidity is sufficient at March 31, 2013.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at March 31, 2013 and December 31, 2012 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
March 31, 2013				
Corporate debt	$ 4,412	$ 2	$ 21	$ 4,393
State and municipal	1,949	-	12	1,937
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	1,272	71	-	1,343
Collateralized mortgage obligations	6,728	96	4	6,820
Total	$ 14,361	$ 169	$ 37	$ 14,493

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Corporate debt	$ 4,429	$ -	$ 64	$ 4,365
State and municipal	2,006	-	20	1,986
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	1,399	87	-	1,486
Collateralized mortgage obligations	9,698	117	13	9,802
Total	$ 17,532	$ 204	$ 97	$ 17,639

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at March 31, 2013 or March 31, 2012.

There were no sales of Securities for the three months ended March 31, 2013 or March 31, 2012.

The amortized cost and fair value of debt securities at March 31, 2013 are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -	$ 50	$ 50
Due from one to five years	6,361	6,330	6,385	6,301
Due from five to ten years	-	-	-	-
Due after ten years	-	-	-	-
Mortgage-backed securities	1,272	1,343	1,399	1,486
Collateralized mortgage obligations	6,728	6,820	9,698	9,802
Total	$ 14,361	$ 14,493	$ 17,532	$ 17,639

Fair value of securities pledged was as follows:

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

	March 31, 2013	December 31, 2012
Pledged as collateral for:		
FHLB advances	$ 4,841	$ 4,707
Public deposits	2,046	2,199
Interest-rate swaps	1,253	1,511
Total	$ 8,140	$ 8,417

At March 31, 2013 and December 31, 2012, 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 March 31, 2013 and December 31, 2012 aggregated by major security type and length of time in a continuous unrealized loss position.

March 31, 2013	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt	$ 2,273	$ 21	$ -	$ -	$ 2,273	$ 21
State and municipal	1,937	12	-	-	1,937	12
Issued by U.S. government-sponsored entities and agencies:						
Collateralized mortgage obligations	1,342	4	-	-	1,342	4
Total temporarily impaired	$ 5,552	$ 37	$ -	$ -	$ 5,552	$ 37

December 31, 2012	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate debt	$ 4,365	$ 64	$ -	$ -	$ 4,365	$ 64
State and municipal	1,936	20	-	-	1,936	20
Issued by U.S. government-sponsored entities and agencies:						
Collateralized mortgage obligations	1,673	13	-	-	1,673	13
Total temporarily impaired	$ 7,974	$ 97	$ -	$ -	$ 7,974	$ 97

The unrealized losses in Corporate debt and State and Municipal Securities at March 31, 2013 and December 31, 2012, are related to multiple securities. Because the decline in fair value is attributable to changes in market conditions, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Company did not consider these securities to be other-than-temporarily impaired at March 31, 2013 and December 31, 2012.

The unrealized loss at March 31, 2013 and December 31, 2012 in Collateralized Mortgage Obligations is related to two Ginnie Mae collateralized mortgage obligations. 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 market conditions, and not credit quality, and because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell these securities before their anticipated recovery, the Company did not consider these securities to be other-than-temporarily impaired at March 31, 2013 and December 31, 2012.

NOTE 4 – LOANS

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

	March 31, 2013	December 31, 2012
Commercial	$ 28,524	$ 25,408
Real estate:		
Single-family residential	46,618	43,058
Multi-family residential	27,109	21,576
Commercial	56,432	54,291

Construction	79	14
Consumer:		
Home equity lines of credit	12,748	12,963
Other	971	970
Subtotal	172,481	158,280
Less: ALLL	(5,682)	(5,237)
Loans, net	$ 166,799	$ 153,043

13

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Commercial loans included $13,880 and $11,782, respectively, of commercial lines of credit which required interest only payments at March 31, 2013 and December 31, 2012.

Home equity lines of credit included $10,340 and $10,447, respectively, of loans which required interest only payments at March 31, 2013 and December 31, 2012.

Mortgage Purchase Program

On December 11, 2012 the Bank entered into a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation. At March 31, 2013 and December 31,2012, CFBank held $27,434 and $25,373, respectively, of such loans which have been included in single family residential loan totals above. Through a participation agreement, CFBank agreed to purchase from Northpointe 75% interest in fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage brokers located throughout the U.S. The participation agreement provides for CFBank to purchase individually (MERS registered) loans from Northpointe and hold them until funded by the end investor. The mortgage loan investors include Fannie Mae and Freddie Mac, and other major financial institutions such as Wells Fargo Bank. This process on average takes approximately 14 days. Given the short term nature of each of these individual loans, common credit risks such as past due, impairment and trouble debt restructure (TDR), nonperforming, and nonaccrual classification are substantially reduced. The maximum aggregate purchase interest shall not exceed $45,000. Northpointe maintains a 25% ownership interest in each loan it participates. The agreement further calls for full control to be relinquished by the Broker to Northpointe and its participants with recourse to the broker after 120 days, at the sole discretion of Northpointe. As such, these purchased loans are classified as portfolio loans. These loans are 100% risk rated for CFBank capital adequacy purposes.

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 contained in the Company's 2012 Annual Report.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following tables present the activity in the ALLL by portfolio segment for the three months ended March 31, 2013:

	Three months ended March 31, 2013							
		Real Estate				Consumer		
		Single-	Multi-			Home Equity lines		
	Commercial	family	family	Commercial	Construction	of credit	Other	Total
Beginning balance	$ 1,311	$ 332	$ 1,396	$ 1,946	$ -	$ 241	$ 11	$ 5,237
Addition to (reduction in) provision for loan losses	81	(94)	179	197	1	(23)	(15)	326
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	17	1	29	54	-	2	16	119
Ending balance	$ 1,409	$ 239	$ 1,604	$ 2,197	$ 1	$ 220	$ 12	$ 5,682

The following tables present the activity in the ALLL by portfolio segment for the three months ended March, 2012:

	Three months ended March 31, 2012							
		Real Estate				Consumer		
		Single-	Multi-			Home Equity lines		
	Commercial	family	family	Commercial	Construction	of credit	Other	Total
Beginning balance	$ 2,281	$ 207	$ 1,470	$ 1,863	$ -	$ 272	$ 17	$ 6,110
Addition to (reduction in) provision for loan losses	(508)	(19)	370	347	-	19	(9)	200
Charge-offs	(15)	-	(416)	(434)	-	(20)	-	(885)
Recoveries	44	2	22	136	-	3	9	216
Ending balance	$ 1,802	$ 190	$ 1,446	$ 1,912	$ -	$ 274	$ 17	$ 5,641

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents the balance in the ALLL and the recorded investment in loans by portfolio segment and based on the impairment method as of March 31, 2013:

		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	$ 562	$ 44	$ 84	$ 152	$ -	$ -	$ -	$ 842
Collectively evaluated for impairment	847	195	1,520	2,045	1	220	12	4,840
Total ending allowance balance	$ 1,409	$ 239	$ 1,604	$ 2,197	$ 1	$ 220	$ 12	$ 5,682
	-	-	-	-	-	-	-	-
Loans:								
Individually evaluated for impairment	988	128	2,127	5,728	-	-	-	8,971
Collectively evaluated for impairment	27,536	46,490	24,982	50,704	79	12,748	971	163,510
Total ending loan balance	$ 28,524	$ 46,618	$ 27,109	$ 56,432	$ 79	$ 12,748	$ 971	$ 172,481

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, 2012:

		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	$ 609	$ 71	$ 24	$ 126	$ -	$ -	$ -	$ 830
Collectively evaluated for impairment	702	261	1,372	1,820	-	241	11	4,407
Total ending allowance balance	$ 1,311	$ 332	$ 1,396	$ 1,946	$ -	$ 241	$ 11	$ 5,237
	-	-	-	-	-	-	-	-
Loans:								
Individually evaluated for impairment	1,091	129	2,167	6,467	-	-	-	9,854
Collectively evaluated for impairment	24,317	42,929	19,409	47,824	14	12,963	970	148,426
Total ending loan balance	$ 25,408	$ 43,058	$ 21,576	$ 54,291	$ 14	$ 12,963	$ 970	$ 158,280

16

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The following table presents loans individually evaluated for impairment by class of loans at March 31, 2013. 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. The table presents accrual basis interest income recognized during the three months ended March 31, 2013. Cash payments of interest during the three months ended March 31, 2013 totaled $57.