CENTRAL FEDERAL CORP
Form 10-Q
August 13, 2015
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 June 30, 2015

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 incorporation or organization)	(IRS Employer Identification No.)

7000 North High St., Worthington, Ohio 43085

(Address of principal executive offices) (Zip Code)

(614) 334-7979

(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 August 13, 2015, 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)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 28,293	$ 28,207
Interest-bearing deposits in other financial institutions	494	494
Securities available for sale	9,135	10,445
Loans held for sale, at fair value	1,992	3,505
Loans, net of allowance of $6,480 and $6,316	284,160	257,085
FHLB stock	1,942	1,942
Foreclosed assets, net	1,636	1,636
Premises and equipment, net	3,691	3,775
Bank owned life insurance	4,730	4,665
Accrued interest receivable and other assets	3,240	3,834
Total assets	$ 339,313	$ 315,588
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 31,549	$ 37,035
Interest bearing	250,500	221,280
Total deposits	282,049	258,315
FHLB advances	14,500	14,500
Advances by borrowers for taxes and insurance	280	401
Accrued interest payable and other liabilities	2,383	2,708
Subordinated debentures	5,155	5,155
Total liabilities	304,367	281,079
Commitments and Contingent Liabilities	-	-
Stockholders' equity		
Common stock, $.01 par value; shares authorized: 50,000,000; shares issued: 15,935,417 in 2015 and 2014	159	159
Series B Preferred stock, $0.01 par value; 480,000 shares authorized; 480,000 issued at June 30, 2015 and December 31, 2014	5	5
Additional paid-in capital	59,821	59,696
Accumulated deficit	(21,868)	(22,157)
Accumulated other comprehensive income	74	51

Treasury stock, at cost; 111,707 shares of common stock	(3,245)	(3,245)
Total stockholders' equity	34,946	34,509
Total liabilities and stockholders' equity	$ 339,313	$ 315,588

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		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Interest and dividend income				
Loans, including fees	$ 3,044	$ 2,402	$ 5,990	$ 4,524
Securities	34	42	69	86
FHLB stock dividends	19	19	39	39
Federal funds sold and other	16	15	33	32
	3,113	2,478	6,131	4,681
Interest expense				
Deposits	558	368	1,043	723
FHLB advances and other debt	58	26	115	71
Subordinated debentures	41	41	81	83
	657	435	1,239	877
Net interest income	2,456	2,043	4,892	3,804
Provision for loan losses	75	108	150	128
Net interest income after provision for loan losses	2,381	1,935	4,742	3,676
Noninterest income				
Service charges on deposit accounts	116	106	232	209
Net gains on sales of loans	209	132	293	149
Net gain (loss) on sales of securities	-	-	(12)	-
Earnings on bank owned life insurance	33	32	65	64
Other	106	88	241	181
	464	358	819	603
Noninterest expense				
Salaries and employee benefits	1,217	1,051	2,437	2,154
Occupancy and equipment	134	135	273	293
Data processing	268	224	517	431
Franchise and other taxes	81	49	161	99
Professional fees	202	257	446	554
Director fees	33	13	66	25
Postage, printing and supplies	58	57	130	141
Advertising and promotion	45	1	90	4
Telephone	31	27	56	52
Loan expenses	6	11	43	15
Foreclosed assets, net	28	70	74	81
Depreciation	52	70	104	122
FDIC premiums	103	85	207	164

Regulatory assessment	47	39	98	78
Other insurance	31	33	61	69
Other	42	73	80	113
	2,378	2,195	4,843	4,395
Income (loss) before incomes taxes	467	98	718	(116)
Income tax expense	-	-	-	-
Net income (loss)	467	98	718	(116)
Dividends on Series B preferred stock and accretion of discount	(215)	(59)	(429)	(59)
Earnings (loss) attributable to common stockholders	$ 252	$ 39	$ 289	$ (175)
Earnings (loss) per common share:				
Basic	$ 0.02	$ 0.00	$ 0.02	$ (0.01)
Diluted	$ 0.02	$ 0.00	$ 0.02	$ (0.01)

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income (loss)	$ 467	$ 98	$ 718	$ (116)
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period related to investment securities available for sale:				
Unrealized net gains (losses)	(23)	1	11	(23)
Related income tax expense	-	-	-	-
Net unrealized gains (losses)	(23)	1	11	(23)
Less: reclassification adjustment for net losses realized during the period on investment securities available for sale:				
Realized net losses	-	-	12	-
Related income tax expense	-	-	-	-
Net realized losses	-	-	12	-
Other comprehensive income (loss)	(23)	1	23	(23)
Comprehensive income (loss)	$ 444	$ 99	$ 741	$ (139)

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	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	$ 159	$ 5	$ 59,696	$ (22,157)	$ 51	$ (3,245)	$ 34,509
Net income (loss)				718			718
Other comprehensive income (loss)					23		23
Stock option expense, net of forfeitures			71				71
Cash dividends declared on Series B preferred stock and accretion of discount			54	(429)			(375)
Balance at June 30, 2015	$ 159	$ 5	$ 59,821	$ (21,868)	$ 74	$ (3,245)	$ 34,946

	Common Stock	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2014	$ 159	$ -	$ 48,067	$ (22,215)	$ 98	$ (3,245)	$ 22,864

Net income (loss)				(116)			(116)
Other comprehensive income (loss)					(23)		(23)
Stock option expense, net of forfeitures			149				149
Cash dividends declared on Series B preferred stock and accretion of discount				(59)			(59)
Issuance of 270,000 shares Series B preferred stock at $.01 par value, net of $392 in offering expenses		3	6,355				6,358
Balance at June 30, 2014	$ 159	$ 3	$ 54,571	$ (22,390)	$ 75	$ (3,245)	$ 29,173

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Six months ended June 30, 2015	2014
Net Income (loss)	$ 718	$ (116)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	150	128
Depreciation	104	122
Amortization, net	(7)	134
Net loss on sales of securities	12	-
Originations of loans held for sale	(28,193)	(22,953)
Proceeds from sale of loans held for sale	30,833	23,127
Net gains on sales of loans	(293)	(149)
Earnings on bank owned life insurance	(65)	(64)
Stock-based compensation expense	71	149
Net change in:		
Accrued interest receivable and other assets	594	344
Accrued interest payable and other liabilities	(325)	1,862
Net cash from operating activities	3,599	2,584
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits in other financial institutions	-	496
Available-for-sale securities:		
Maturities, prepayments and calls	1,280	945
Loan originations and payments, net	(30,661)	(40,714)
Proceeds from the sale of loans	2,663	-
Additions to premises and equipment	(18)	(414)
Net cash used by investing activities	(26,736)	(39,687)
Cash flows from financing activities		
Net change in deposits	23,719	34,399
Net change in short-term borrowings from the FHLB and other debt	-	(1,026)
Proceeds from long-term FHLB advances and other debt	2,500	5,000
Repayments on long-term FHLB advances and other debt	(2,500)	(7,500)
Net change in advances by borrowers for taxes and insurance	(121)	(407)
Cash dividends paid on Series B preferred stock	(375)	-
Net proceeds from issuance of Series B preferred stock	-	6,358
Net cash from financing activities	23,223	36,824

Net change in cash and cash equivalents	86	(279)
Beginning cash and cash equivalents	28,207	19,160
Ending cash and cash equivalents	$ 28,293	$ 18,881
Supplemental cash flow information:		
Interest paid	$ 1,242	$ 1,102
Supplemental noncash disclosures:		
Loans transferred from held for sale to portfolio	$ 834	-
Loans transferred from portfolio to held for sale	175	-
Dividends payable on Series B preferred stock	187	59

See accompanying notes to consolidated financial statements.

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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 subsidiary, CFBank. The Holding Company and CFBank are sometimes collectively referred to herein as the “Company”. Intercompany transactions and balances are eliminated in consolidation. 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 six months ended June 30, 2015 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 to the Audited Consolidated Financial Statements contained in the Company’s 2014 Annual Report that was filed as Exhibit 13.1 to the Company’s Form 10-K for the year ended December 31, 2014 (referred to herein as the “2014 Audited Financial Statements”). The Company has consistently followed those policies in preparing this Form 10-Q.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, adjusted for purchase premiums and discounts, deferred loan fees and costs and an allowance for loan losses (ALLL). Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level yield method without anticipating prepayments.

The accrual of interest income on all classes of loans, except other consumer loans, is discontinued and the loan is placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Other consumer loans are typically charged off no later than 90 days past due. Past due status is based on the contractual terms of the loan for all classes of loans. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Commercial loans, multi-family residential real estate loans and commercial real estate loans placed on nonaccrual status are individually classified as impaired loans.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income in the period in which the loan is placed in a nonaccrual status. Interest received on such loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual status. Loans are considered for return to accrual status if and when all the principal and interest amounts that are contractually due are brought current, there is a current and well documented credit analysis, there is reasonable assurance of repayment of principal and interest, and the customer has demonstrated sustained, amortizing payment performance of at least six months.

Allowance for Loan Losses (ALLL): The ALLL is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using 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. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that CFBank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans within any loan class for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and classified as impaired.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Factors considered by management in determining impairment for all loan classes include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

All loans within the commercial, multi-family residential and commercial real estate segments, regardless of size, and loans of all other classes with balances over $250 are individually evaluated for impairment when they are 90 days past due, or earlier than 90 days past due if information regarding the payment capacity of the borrower indicates that payment in full according to the loan terms is doubtful. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral, less costs to sell, if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and single-family residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

TDRs of all classes of loans are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. If the payment of the loan is dependent on the sale of the collateral, then costs to liquidate the collateral are included when determining the impairment. For TDRs that subsequently default, the amount of reserve is determined in accordance with the accounting policy for the ALLL.

Interest income on all classes of impaired loans that are on nonaccrual status is recognized in accordance with the accounting policy on nonaccrual loans. Cash receipts on all classes of impaired loans that are on nonaccrual status are generally applied to the principal balance outstanding. Interest income on all classes of impaired loans that are not on nonaccrual status is recognized on the accrual method. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured loan.

The general reserve component covers non-impaired loans of all classes and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by loan class and is based on the actual loss history experienced by CFBank over a three-year period. The general component is calculated based on CFBank's loan balances and actual three-year historical loss rates. For loans with little or no actual loss experience, industry estimates are used based on loan segment. This actual loss experience is supplemented with other economic and judgmental factors based on the risks present for each loan class. These economic and judgmental factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

CFBank's charge-off policy for commercial loans, single-family residential real estate loans, multi-family residential real estate loans, commercial real estate loans, construction loans and home equity lines of credit requires management to record a specific reserve or charge-off as soon as it is apparent that the borrower is troubled and there is, or likely will be, a collateral shortfall related to the estimated value of the collateral securing the loan. Other consumer loans are typically charged off no later than 90 days past due.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

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:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic				
Net earnings (loss)	$ 467	$ 98	$ 718	$ (116)
Dividends on Series B preferred stock and accretion of discount	(215)	(59)	(429)	(59)
Earnings (loss) allocated to common stockholders	$ 252	$ 39	$ 289	$ (175)
Weighted average common shares outstanding including unvested share-based payment awards	15,823,710	15,823,710	15,823,710	15,823,710
Less: Unvested share-based payment awards	-	-	-	-
Average shares	15,823,710	15,823,710	15,823,710	15,823,710
Basic earnings (loss) per common share (1)	$ 0.02	$ 0.00	$ 0.02	$ (0.01)
Diluted				
Net earnings (loss) allocated to common stockholders	$ 252	$ 39	$ 289	$ (175)
Weighted average common shares outstanding for basic loss per common share	15,823,710	15,823,710	15,823,710	15,823,710
Add: Dilutive effects of assumed exercises of stock options	12,482	40,258	9,963	40,258
Add: Dilutive effects of assumed exercises of stock warrants	-	-	-	-
Average shares and dilutive potential common shares	15,836,192	15,863,968	15,833,673	15,863,968
Diluted earnings (loss) per common share (2)	$ 0.02	$ 0.00	$ 0.02	$ (0.01)

The following securities exercisable for or convertible into common shares were anti-dilutive and not considered in computing diluted earnings (loss) per common share.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Stock options	422,609	51,369	439,503	51,369
Series B preferred stock	6,857,143	3,857,143	6,857,143	3,857,143
Stock warrants	1,152,125	610,000	1,152,125	610,000

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

Adoption of New Accounting Standards:

In January 2014, the FASB issued Accounting Standards Update (“ASU” or “Update”) 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (January 2014). This Update permits entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The ASU modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update should be applied retrospectively to all periods presented. Adoption of the ASU did not have a significant effect on the Company’s consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (January 2014). The objective of this Update is to reduce diversity by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The amendments in this Update may be adopted using either a modified retrospective transition method or a prospective transition method. Adoption of the ASU did not have a significant effect on the Company’s consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (April 2014). This Update seeks to better define the groups of assets which qualify for discontinued operations, in order to ease the burden and cost for preparers and stakeholders. This Update changed “the criteria for reporting discontinued operations” and related reporting requirements, including the provision for disclosures about the “disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.” The amendments in this Update are effective for fiscal years beginning after December 15, 2014. Early adoption is permitted only for disposals or classifications as held for sale. The Company has adopted the methodologies prescribed by this ASU by the date required. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (May 2014). The topic of Revenue Recognition had become broad with several other regulatory agencies issuing standards, which lacked cohesion. The new guidance establishes a “comprehensive framework” and “reduces the number of requirements to which an entity must consider in recognizing revenue” and yet provides improved disclosures to assist stakeholders reviewing financial statements. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures (June 2014). This Update addresses the concerns of stakeholders by changing the accounting practices surrounding repurchase agreements. The new guidance changes the “accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements.” The amendments in this Update are effective for annual reporting periods beginning after December 15, 2014. Early adoption is prohibited. The Company has adopted the methodologies prescribed by this ASU by the date required. Adoption of the ASU did not have a significant effect on the Company's consolidated financial statements.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

In June 2014, the FASB issued ASU 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (June 2014). This Update defines the accounting treatment for share-based payments and "resolves the diverse accounting treatment of those awards in practice." The new requirement mandates that "a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition." Compensation cost will now be recognized in the period in which it becomes likely that the performance target will be met. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

The FASB has issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. Adoption of the ASU is not expected to have a significant effect on the Company's consolidated financial statements.

COSO's Internal Control Framework has been updated and enhanced. Since its release in 1992, COSO's Internal Control – Integrated Framework has been widely accepted and adopted around the world. The updated framework, issued on May 14, 2013, maintains the fundamental elements of the original: five components of an internal control system—control environment, risk assessment, control activities, information and communication—and monitoring activities supporting three categories of objectives: effectiveness and efficiency of operations, reliability of reporting and compliance with applicable laws and regulations, structured through management's judgment. The five components are evaluated through principles and recommended points of focus. A significant enhancement, however, is the expansion of the reporting objective to include nonfinancial and internal reporting objectives. The mandatory principles have been updated to reflect today's business environment—an environment of increased governance, regulatory and compliance demands and increased use of technology and complex business models. The original framework still may be used through December 15, 2014; beyond that date, COSO will consider the original framework obsolete. Adoption of the updated COSO Integrated Framework is not expected to have a material effect on the Company's internal control environment or financial reporting.

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Reclassifications

Reclassification of certain amounts in the 2014 consolidated financial statements have been made to conform to the 2015 presentation.

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 (the “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 Federal Reserve Board (the “FRB”) replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (the “OCC”) replaced the OTS as the primary regulator of CFBank.

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The Orders imposed significant directives applicable to the Holding Company and CFBank, including requirements that we reduce the level of our classified and criticized assets, achieve growth and operating metrics in line with an approved business plan, and comply with restrictions on brokered deposits and on certain types of lending and prohibitions on dividends and repurchases of our capital stock. The CFBank Order required CFBank to have 8% core capital and 12% total risk-based capital, and CFBank could not be considered well-capitalized under the prompt corrective action regulations so long as the CFBank Order remained in place, even if it met or exceeded these capital levels. In addition, the regulators were required to approve any deviation from our business plan and certain compensation arrangements with directors and executive officers.

Effective as of January 23, 2014, the OCC released and terminated the CFBank Order based upon the improved capital position of CFBank, among other factors. Notwithstanding the release of the CFBank Order, CFBank is required to continue to maintain a minimum Tier 1 Leverage Capital Ratio of 8% and a Total Risk-based Capital to Risk-Weighted Assets ratio of 12%. In addition, in connection with the release and termination of the CFBank Order, CFBank has made certain commitments to the OCC to continue to adhere to certain prudent practices, including, without limitation, maintaining a written program to continue to improve CFBank's credit underwriting and administrative process; take actions to protect its interest in criticized assets as identified by CFBank, the OCC examiners or its external loan review process; implement its written program to effectively identify, monitor, control and continue to reduce the level of credit risk to CFBank; review and monitor progress against such plan with the Board of Directors; and continue CFBank's aggressive workout efforts and individualized workout plans on all criticized assets greater than $250,000.

On May 15, 2014, the FRB announced the termination of the Holding Company Order, effective as of May 9, 2014. Notwithstanding the termination of the Holding Company Order, the Holding Company is required to continue to adhere to certain requirements and restrictions based on commitments made to the FRB in connection with the termination of the Holding Company Order. These commitments require the Holding Company, among other things, to continue to implement certain actions in accordance with the capital plan previously submitted to the FRB; not declare or pay dividends on its stock, purchase or redeem its stock, or accept dividends or other capital distributions from CFBank without the prior written approval of the FRB; not incur, increase or guarantee any debt without the prior written consent of the FRB; and provide prior written notice to the FRB with respect to certain changes in directors and senior executive officers.

The significant directives contained in the Orders and the commitments made by CFBank and the Holding Company in connection with the release and termination of the Orders have provided challenges for the operation of our business and our ability to effectively compete in our markets. In addition, the Orders and our ongoing commitments to the regulators have required that we obtain approval from our regulators for any deviations from our business plan, which has limited our flexibility to make changes to the scope of our business activities.

Under the terms of the Holding Company Order, the Holding Company was prohibited from declaring or paying any dividends on its stock, repurchasing any of its stock, or making any capital contributions to CFBank except with the prior approval of the FRB. In accordance with the commitments made by the Holding Company in connection with the release and termination of the Holding Company Order, the Holding Company remains subject to such restrictions and, therefore, must continue to obtain the prior approval of the FRB before making any future dividends on its common stock or Series B Preferred Stock. The Holding Company received prior approval from the FRB for the payment of a quarterly cash dividend on its Series B Preferred Stock for the quarter ended June 30, 2015 in the aggregate amount of $187 (paid in July 2015). The Holding Company also received prior approval from the FRB for the payment of quarterly cash dividends on its Series B Preferred Stock in each of the previous quarters commencing with the first dividend payment on July 15, 2014. See Note 8 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding the restrictions applicable to the payment of the dividends by the Holding Company and CFBank.

We have taken such actions as we believe are necessary to comply with all requirements of the Orders and the other regulatory requirements and commitments to which we are subject, and we continue to work toward ensuring compliance with those regulatory requirements and commitments to which we continue to be subject.

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NOTE 3 – SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at June 30, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Corporate debt	$ 2,902	$ 2	$ 1	$ 2,903
State and municipal	-	-	-	-
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	5,014	23	-	5,037
Mortgage-backed securities - residential	575	32	-	607
Collateralized mortgage obligations	570	18	-	588
Total	$ 9,061	$ 75	$ 1	$ 9,135

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Corporate debt	$ 2,932	$ 5	$ 1	$ 2,936
State and municipal	897	-	11	886
Issued by U.S. government-sponsored entities and agencies:				
U.S. Treasury	5,018	-	7	5,011
Mortgage-backed securities - residential	687	40	-	727
Collateralized mortgage obligations	860	25	-	885
Total	$ 10,394	$ 70	$ 19	$ 10,445

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at June 30, 2015 or June 30, 2014.

There were no sales of securities for the three and six months ended June 30, 2015 or June 30, 2014; however, there was an early redemption of a municipal security during the first quarter of 2015 which is reflected in net gain (loss) on sales of securities.

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The amortized cost and fair value of debt securities at June 30, 2015 are shown in the table below 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.

	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 3,903	$ 3,904	$ 4,829	$ 4,821
Due from one to five years	4,013	4,036	4,018	4,012
Mortgage-backed securities	575	607	687	727
Collateralized mortgage obligations	570	588	860	885
Total	$ 9,061	$ 9,135	$ 10,394	$ 10,445

Fair value of securities pledged was as follows:

	June 30, 2015	December 31, 2014
Pledged as collateral for:		
FHLB advances	$ 3,857	$ 4,208
Public deposits	2,446	2,476
Interest-rate swaps	310	353
Total	$ 6,613	$ 7,037

At June 30, 2015 and December 31, 2014, 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.

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The following table summarizes securities with unrealized losses at June 30, 2015 and December 31, 2014 aggregated by major security type and length of time in a continuous unrealized loss position.

June 30, 2015	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	$ 1,235	$ 1	$ -	$ -	$ 1,235	$ 1
State and municipal	-	-	-	-	-	-
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury	-	-	-	-	-	-
Total temporarily impaired	$ 1,235	$ 1	$ -	$ -	$ 1,235	$ 1

December 31, 2014	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	$ 1,259	$ 1	$ -	$ -	$ 1,259	$ 1
State and municipal	-	-	886	11	886	11
Issued by U.S. government-sponsored entities and agencies:						
U.S. Treasury	5,011	7	-	-	5,011	7
Total temporarily impaired	$ 6,270	$ 8	$ 886	$ 11	$ 7,156	$ 19

The unrealized loss in Corporate debt securities at June 30, 2015 is related to two securities. The unrealized losses in Corporate debt, State and municipal securities and U.S. Treasuries at December 31, 2014, 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 June 30, 2015 and December 31, 2014.

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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, and deferred loan fees and costs.

	June 30, 2015	December 31, 2014
Commercial	$ 47,115	$ 46,532
Real estate:		
Single-family residential	72,315	51,445
Multi-family residential	30,925	28,790
Commercial	83,921	91,119
Construction	29,963	23,641
Consumer:		
Home equity lines of credit	20,057	16,898
Other	6,344	4,976
Subtotal	290,640	263,401
Less: ALLL	(6,480)	(6,316)
Loans, net	$ 284,160	$ 257,085

Mortgage Purchase Program

On December 11, 2012, CFBank entered into a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation. Through a participation agreement, CFBank agreed to purchase an interest from Northpointe 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 CFBank's holding of each of these individual loans, common credit risks (such as past due, impairment and TDR, nonperforming, and nonaccrual classification) are substantially reduced, and therefore no allowance is allocated to these loans. Northpointe maintains an ownership interest in each loan it participates. The participation agreement further calls for full control to be relinquished by the mortgage 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. Effective December 18, 2014, the participation agreement was amended and

CFBank agreed to increase the level of interest in loans it purchases from Northpointe from 80% to 95% of the aforementioned loans, and therefore, Northpointe now maintains a 5% (reduced from 20%) ownership interest in each loan it participates. At June 30, 2015 and December 31, 2014, CFBank held $37,644 and $24,996, respectively, of such loans which have been included in single-family residential loan totals above.

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Allowance for Loan Losses

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 to the 2014 Audited Financial Statements.

The following tables present the activity in the ALLL by portfolio segment for the three and six months ended June 30, 2015:

	Three months ended June 30, 2015							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total
Beginning balance	$ 1,451	$ 700	$ 693	$ 2,497	$ 541	$ 468	$ 92	$ 6,442
Addition to (reduction in) provision for loan losses	(57)	(11)	61	(103)	181	(14)	18	75
Charge-offs	-	(31)	-	(25)	-	-	-	(56)
Recoveries	-	-	-	3	-	16	-	19
Ending balance	$ 1,394	$ 658	$ 754	$ 2,372	$ 722	$ 470	$ 110	$ 6,480

	Six months ended June 30, 2015							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total

Beginning balance	$ 1,346	$ 634	$ 818	$ 2,541	$ 442	$ 441	$ 94	$ 6,316
Addition to (reduction in) provision for loan losses	31	54	(64)	(180)	280	9	20	150
Charge-offs	(8)	(31)	-	(25)	-	-	(10)	(74)
Recoveries	25	1	-	36	-	20	6	88
Ending balance	$ 1,394	$ 658	$ 754	$ 2,372	$ 722	$ 470	$ 110	$ 6,480

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The following tables present the activity in the ALLL by portfolio segment for the three months ended June 30, 2014:

	Three months ended June 30, 2014							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total
Beginning balance	$ 1,587	$ 159	$ 1,458	$ 2,064	$ 378	$ 109	$ 8	$ 5,763
Addition to (reduction in) provision for loan losses	18	37	(247)	165	96	7	32	108
Charge-offs	-	-	-	(2)	-	(9)	-	(11)
Recoveries	-	-	-	4	-	6	1	11
Ending balance	$ 1,605	$ 196	$ 1,211	$ 2,231	$ 474	$ 113	$ 41	$ 5,871

	Six months ended June 30, 2014							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total
Beginning balance	$ 1,759	$ 120	$ 1,262	$ 2,325	$ 119	$ 139	$ 5	$ 5,729
Addition to (reduction in) provision for loan losses	(157)	75	(51)	(100)	355	(28)	34	128
Charge-offs	-	-	-	(2)	-	(9)	-	(11)
Recoveries	3	1	-	8	-	11	2	25
Ending balance	$ 1,605	$ 196	$ 1,211	$ 2,231	$ 474	$ 113	$ 41	$ 5,871

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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 June 30, 2015:

		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	$ 23	$ 1	$ -	$ 22	$ -	$ -	$ -	$ 46
Collectively evaluated for impairment	1,371	657	754	2,350	722	470	110	6,434
Total ending allowance balance	$ 1,394	$ 658	$ 754	$ 2,372	$ 722	$ 470	$ 110	$ 6,480
Loans:								
Individually evaluated for impairment	$ 513	$ 297	$ 1,611	$ 3,516	$ -	$ -	$ -	$ 5,937
Collectively evaluated for impairment	46,602	72,018	29,314	80,405	29,963	20,057	6,344	284,703
Total ending loan balance	$ 47,115	$ 72,315	$ 30,925	$ 83,921	$ 29,963	$ 20,057	$ 6,344	$ 290,640

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, 2014:

		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	$ 29	$ -	$ 1	$ 34	$ -	$ -	$ -	$ 64
Collectively evaluated for impairment	1,317	634	817	2,507	442	441	94	6,252
Total ending allowance balance	$ 1,346	$ 634	$ 818	$ 2,541	$ 442	$ 441	$ 94	$ 6,316
Loans:								
Individually evaluated for impairment	$ 630	$ 296	$ 1,631	$ 3,695	$ -	$ -	$ -	$ 6,252
Collectively evaluated for impairment	45,902	51,149	27,159	87,424	23,641	16,898	4,976	257,149
Total ending loan balance	$ 46,532	$ 51,445	$ 28,790	$ 91,119	$ 23,641	$ 16,898	$ 4,976	$ 263,401

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The following table presents loans individually evaluated for impairment by class of loans at June 30, 2015. 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. The table presents accrual basis interest income recognized during the three and six months ended June 30, 2015. Cash payments of interest on these loans during the three and six months ended June 30, 2015 totaled $84 and $166, respectively.

	As of June 30, 2015			Three months ended June 30, 2015		Six months ended June 30, 2015	
	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	$ 79	$ 71	$ -	$ 74	$ -	$ 78	$ 1
Real estate:							
Single-family residential	336	175	-	176	-	178	-
Multi-family residential	1,562	1,562	-	1,565	24	1,569	47
Commercial:							
Non-owner occupied	551	451	-	458	-	463	-
Owner occupied	696	175	-	176	10	178	19
Land	-	-	-	-	-	-	-
Total with no allowance recorded	3,224	2,434	-	2,449	34	2,466	67
With an allowance recorded:							
Commercial	442	442	23	451	3	464	6
Real estate:							
Single-family residential	122	122	1	122	2	123	4
Multi-family residential	49	49	-	49	1	50	2
Commercial:							
Non-owner occupied	2,245	2,245	9	2,247	34	2,252	68
Owner occupied	372	372	2	373	5	375	10
Land	318	273	11	277	4	287	9
Total with an allowance recorded	3,548	3,503	46	3,519	49	3,551	99
Total	$ 6,772	$ 5,937	$ 46	$ 5,968	$ 83	$ 6,017	$ 166

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The following table presents loans individually evaluated for impairment by class of loans at December 31, 2014. 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. The table presents accrual basis interest income recognized during the three and six months ended June 30, 2014. Cash payments of interest during the three and six months ended June 30, 2014 totaled $51 and $106, respectively.

	As of December 31, 2014			Three months ended June 30, 2014		Six months ended June 30, 2014	
	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	$ 135	$ 121	$ -	$ 120	$ -	$ 120	$ -
Real estate:							
Single-family residential	334	173	-	182	-	183	-
Multi-family residential	1,579	1,579	-	-	-	-	-
Commercial:							
Non-owner occupied	577	477	-	508	-	515	-
Owner occupied	704	183	-	1,026	-	1,035	-
Land	-	-	-	-	-	-	-
Total with no allowance recorded	3,329	2,533	-	1,836	-	1,853	-
With an allowance recorded:							
Commercial	509	509	29	781	4	799	12
Real estate:							
Single-family residential	123	123	-	125	1	126	3
Multi-family residential	52	52	1	1,704	1	1,720	2
Commercial:							
Non-owner occupied	2,352	2,352	17	2,107	33	2,115	66
Owner occupied	380	380	2	390	6	392	11
Land	348	303	15	592	5	662	10
Total with an allowance recorded	3,764	3,719	64	5,699	50	5,814	104
Total	$ 7,093	$ 6,252	$ 64	$ 7,535	$ 50	$ 7,667	$ 104

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

	June 30, 2015	December 31, 2014
Loans past due over 90 days still on accrual	$ -	$ -
Nonaccrual loans:		
Commercial	289	369
Real estate:		
Single-family residential	678	549
Multi-family residential	-	-
Commercial:		
Non-owner occupied	451	477
Owner occupied	-	-
Land	-	-
Consumer:		
Home equity lines of credit:		
Originated for portfolio	22	51
Purchased for portfolio	98	102
Other consumer	-	-
Total nonaccrual	1,538	1,548
Total nonaccrual and nonperforming loans	$ 1,538	$ 1,548

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 June 30, 2015 or December 31, 2014.

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The following table presents the aging of the recorded investment in past due loans by class of loans as of June 30, 2015:

	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	$ 10	$ 83	$ -	$ 93	$ 47,022	$ 289
Real estate:						
Single-family residential	981	204	224	1,409	70,906	454
Multi-family residential	-	-	-	-	30,925	-
Commercial:						
Non-owner occupied	5	-	-	5	45,923	451
Owner occupied	-	-	-	-	31,744	-
Land	-	-	-	-	6,249	-
Construction	-	-	-	-	29,963	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	120	-	-	120	18,617	22
Purchased for portfolio	-	-	-	-	1,320	98
Other	-	-	-	-	6,344	-
Total	$ 1,116	$ 287	$ 224	$ 1,627	$ 289,013	$ 1,314

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2014:

	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	$ 18	$ -	$ 121	$ 139	$ 46,393	$ 248
Real estate:						
Single-family residential	521	55	68	644	50,801	481

Multi-family residential	-	-	-	-	28,790	-
Commercial:						
Non-owner occupied	115	-	-	115	48,879	477
Owner occupied	-	-	-	-	35,900	-
Land	-	-	-	-	6,225	-
Construction	52	-	-	52	23,589	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	-	-	51	51	15,414	-
Purchased for portfolio	30	102	-	132	1,301	102
Other	5	10	-	15	4,961	-
Total	$ 741	$ 167	$ 240	$ 1,148	$ 262,253	$ 1,308

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Troubled Debt Restructurings (TDRs):

As of June 30, 2015 and December 31, 2014, TDRs totaled $5,417 and $5,655, respectively. The Company allocated $46 and $64 of specific reserves to loans whose terms had been modified in TDRs as of June 30, 2015 and December 31, 2014, respectively. The Company had not committed to lend any additional amounts as of June 30, 2015 or December 31, 2014 to customers with outstanding loans classified as nonaccrual TDRs.

During the three and six months ended June 30, 2015, there was one single-family residential loan in the amount of $9 and one home equity line of credit in the amount of $9 that were modified as TDRs, where concessions were granted to borrowers experiencing financial difficulties. The home equity line of credit was paid off prior to June 30, 2015. During the three and six months ended June 30, 2014, no loans were modified as a TDR.

There were no TDRs in payment default or that became nonperforming during the period ended June 30, 2015 and 2014. 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 terms of certain other loans were modified during the quarter ended June 30, 2015 and 2014 that did not meet the definition of a TDR. These loans had a total recorded investment of $4,575 and $8,567 as of June 30, 2015 and 2014, respectively. 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 payments that was considered to be insignificant or there were no concessions granted.

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.

Nonaccrual loans include loans that were modified and identified as TDRs and the loans are not performing. At June 30, 2015 and December 31, 2014, nonaccrual TDRs were as follows:

	June 30, 2015	December 31, 2014
Commercial	$ 221	$ 249
Real estate:		
Single-family residential	166	173

Multi-family residential	-	-
Commercial:		
Non-owner occupied	-	-
Owner occupied	-	-
Total	$ 387	$ 422

Nonaccrual loans at June 30, 2015 and December 31, 2014 do not include $5,030 and $5,233, respectively, of TDRs where customers have established a sustained period of repayment performance, generally six months, the loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in total impaired loans.

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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 residential real estate loans. Internal loan reviews for these loan types are performed at least annually, and more often for loans with higher credit risk. Adjustments to loan risk ratings are made based on the reviews and at any time information is received that may affect risk ratings. 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, conditions and values, highly questionable and improbable.

Loans not meeting the criteria to be classified into one of the above categories are considered to be not rated or 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. Loans listed as pass-rated loans are loans that are subject to internal loan reviews and are determined not to meet the criteria required to be classified as special mention, substandard or doubtful.

The recorded investment in loans by risk category and by class of loans as of June 30, 2015 and based on the most recent analysis performed follows. There were no loans rated doubtful at June 30, 2015.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 96	$ 46,351	$ 297	$ 371	$ 47,115
Real estate:					
Single-family residential	71,603	-	-	712	72,315
Multi-family residential	-	30,203	-	722	30,925
Commercial:					

Non-owner occupied	132	41,652	-	4,144	45,928
Owner occupied	-	30,026	657	1,061	31,744
Land	67	3,528	-	2,654	6,249
Construction	10,125	19,838	-	-	29,963
Consumer:					
Home equity lines of credit:					
Originated for portfolio	18,619	-	-	118	18,737
Purchased for portfolio	763	-	302	255	1,320
Other	6,344	-	-	-	6,344
	$ 107,749	$ 171,598	$ 1,256	$ 10,037	$ 290,640

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The recorded investment in loans by risk category and by class of loans as of December 31, 2014 follows. There were no loans rated doubtful at December 31, 2014.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 1,088	$ 44,543	$ 441	$ 460	$ 46,532
Real estate:					
Single-family residential	50,864	-	-	581	51,445
Multi-family residential	-	26,412	-	2,378	28,790
Commercial:					
Non-owner occupied	139	43,547	89	5,219	