CENTRAL FEDERAL CORP
Form 10-Q
November 12, 2014
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 September 30, 2014

Or

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

EXCHANGE ACT OF 1934

For the transition period from __________ to______________

Commission File Number 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)

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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 October 31, 2014, 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)

	September 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 30,184	$ 19,160
Interest-bearing deposits in other financial institutions	742	1,982
Securities available for sale	8,143	9,672
Loans held for sale, at fair value	5,861	3,285
Loans, net of allowance of $6,256 and $5,729	248,168	207,141
FHLB stock	1,942	1,942
Foreclosed assets, net	1,636	1,636
Premises and equipment, net	3,823	3,547
Bank owned life insurance	4,633	4,535
Accrued interest receivable and other assets	2,498	2,848
Total assets	$ 307,630	$ 255,748
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest bearing	$ 33,012	$ 27,652
Interest bearing	217,951	180,657
Total deposits	250,963	208,309
FHLB advances	14,500	10,000
Other secured borrowings	-	6,526
Advances by borrowers for taxes and insurance	212	575
Accrued interest payable and other liabilities	2,443	2,319
Subordinated debentures	5,155	5,155
Total liabilities	273,273	232,884
Commitments and Contingent Liabilities	-	-
Stockholders' equity		
Common stock, $.01 par value; shares authorized: 50,000,000; shares issued: 15,935,417 in 2014 and 2013	159	159
Series B Preferred stock, $0.01 par value; 480,000 shares authorized; 480,000 issued at September 30, 2014 and 0 shares issued at December 31, 2013	3	-

Additional paid-in capital	59,651	48,067
Accumulated deficit	(22,278)	(22,215)
Accumulated other comprehensive income	67	98
Treasury stock, at cost; 111,707 shares of common stock	(3,245)	(3,245)
Total stockholders' equity	34,357	22,864
Total liabilities and stockholders' equity	$ 307,630	$ 255,748

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		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest and dividend income				
Loans, including fees	$ 2,848	$ 1,822	$ 7,372	$ 5,152
Securities	38	52	124	155
FHLB stock dividends	19	21	58	62
Federal funds sold and other	14	36	46	107
	2,919	1,931	7,600	5,476
Interest expense				
Deposits	400	417	1,123	1,246
FHLB advances and other debt	41	79	112	232
Subordinated debentures	41	42	124	125
	482	538	1,359	1,603
Net interest income	2,437	1,393	6,241	3,873
Provision for loan losses	75	76	203	726
Net interest income after provision for loan losses	2,362	1,317	6,038	3,147
Noninterest income				
Service charges on deposit accounts	99	92	308	248
Net gains on sales of loans	207	(1)	356	112
Earnings on bank owned life insurance	33	33	97	98
Other	107	52	288	120
	446	176	1,049	578
Noninterest expense				
Salaries and employee benefits	1,177	970	3,331	2,823
Occupancy and equipment	138	70	431	229
Data processing	223	158	654	464
Franchise taxes	51	84	150	254
Professional fees	317	211	871	598
Director fees	39	5	64	13
Postage, printing and supplies	49	42	190	169
Advertising and promotion	36	20	40	32
Telephone	31	18	83	55
Loan expenses	12	29	27	55

Foreclosed assets, net	167	(4)	248	(22)
Depreciation	57	54	179	161
FDIC premiums	105	80	269	227
Amortization of intangibles	-	11	-	30
Regulatory assessment	42	41	120	119
Other insurance	30	37	99	110
Other	48	52	161	157
	2,522	1,878	6,917	5,474
Income (loss) before incomes taxes	286	(385)	170	(1,749)
Income tax expense	-	-	-	-
Net income (loss)	286	(385)	170	(1,749)
Dividends on Series B preferred stock	(174)	-	(233)	-
Earnings (loss) attributable to common stockholders	$ 112	$ (385)	$ (63)	$ (1,749)
Earnings (loss) per common share:				
Basic	$ 0.01	$ (0.02)	$ 0.00	$ (0.11)
Diluted	$ 0.01	$ (0.02)	$ 0.00	$ (0.11)

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income (loss)	$ 286	$ (385)	$ 170	$ (1,749)
Other comprehensive income (loss):				
Change in unrealized holding gains (losses) on securities available for sale	(7)	4	(31)	(6)
Reclassification adjustment for gains realized in income	-	-	-	-
Net change in unrealized gains (losses)	(7)	4	(31)	(6)
Tax effect	-	-	-	-
Other comprehensive income (loss)	(7)	4	(31)	(6)
Comprehensive income (loss)	$ 279	$ (381)	$ 139	$ (1,755)

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, 2014	$ 159	$ -	$ 48,067	$ (22,215)	$ 98	$ (3,245)	$ 22,864
Net loss				170			170
Other comprehensive Income (loss)					(31)		(31)
Stock option expense, net of forfeitures			218				218
Cash dividends declared on Series B preferred stock				(233)			(233)
Issuance of 480,000 shares Series B preferred stock at $.01 par value, net of $631 in offering expenses		3	11,366				11,369
Balance at September 30, 2014	$ 159	$ 3	$ 59,651	$ (22,278)	$ 67	$ (3,245)	$ 34,357

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			(1,749)			(1,749)
Other comprehensive income (loss)				(6)		(6)
Release of 100 stock-based incentive plan shares, net of forfeitures		(6)				(6)
Stock option expense, net of forfeitures		88				88
Offering costs associated with issuance of common stock		(11)				(11)
Balance at September 30, 2013	$ 159	$ 47,990	$ (23,046)	$ 101	$ (3,245)	$ 21,959

See accompanying notes to consolidated financial statements.

CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine months ended September 30, 2014	2013
Net loss	$ 170	$ (1,749)
Adjustments to reconcile net loss to net cash from operating activities:		
Provision for loan losses	203	726
Depreciation	179	161
Amortization, net	169	338
Originations of loans held for sale	(40,280)	(19,775)
Proceeds from sale of loans held for sale	38,061	15,656
Net gains on sales of loans	(356)	(112)
Gain on sale of foreclosed assets	-	(28)
Earnings on bank owned life insurance	(97)	(98)
Stock-based compensation expense	218	82
Net change in:		
Accrued interest receivable and other assets	350	(13)
Accrued interest payable and other liabilities	(52)	(60)
Net cash from (used by) operating activities	(1,435)	(4,872)
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits in other financial institutions	1,240	744
Available-for-sale securities:		
Maturities, prepayments and calls	1,398	6,864
Loan originations and payments, net	(41,274)	(18,117)
Additions to premises and equipment	(456)	(198)
Proceeds from the sale of foreclosed assets	-	149
Proceeds from mortgage insurance on foreclosed assets	-	14
Net cash from (used by) investing activities	(39,092)	(10,544)
Cash flows from financing activities		
Net change in deposits	42,630	37,127
Net change in short-term borrowings from the FHLB and other debt	(6,526)	-
Proceeds from long-term FHLB advances and other debt	12,000	-
Repayments on long-term FHLB advances and other debt	(7,500)	-
Net change in advances by borrowers for taxes and insurance	(363)	(67)
Cash dividends paid on Series B preferred stock	(59)	-
Net proceeds from issuance of Series B preferred stock	11,369	-

Cost associated with issuance of common stock	-	(11)
Net cash from (used by) financing activities	51,551	37,049
Net change in cash and cash equivalents	11,024	21,633
Beginning cash and cash equivalents	19,160	25,152
Ending cash and cash equivalents	$ 30,184	$ 46,785
Supplemental cash flow information:		
Interest paid	$ 1,084	$ 1,472
Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	$ -	$ 74
Transfer from premises and equipment to assets held for sale	-	1,903

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 referred to as the “Company”). Ghent Road, Inc. was formed in 2006 and owned the land adjacent to the corporate office, and Smith Ghent LLC owned the office building on such land. During October 2013, the Company consummated a sale of its corporate office building and adjacent land, and relocated its main office branch to a nearby location. After the sale was finalized, Ghent Road, Inc. and Smith Ghent LLC were legally dissolved, prior to year-end 2013. However, the results of operations of Ghent Road, Inc. and Smith Ghent LLC for 2013 prior to dissolution are included in these consolidated financial statements. 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 nine months ended September 30, 2014 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 Annual Report on 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 2013 Annual Report that was filed as Exhibit 13.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. 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, accrued interest receivable 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 recorded investment in loans includes accrued interest receivable.

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, 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 it 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 provided 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 based on an evaluation of 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.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

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.

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.

Loans of all classes 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 terms.

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 historical 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.

During the fourth quarter of 2013, after running parallel calculations and analyzing results for the last two quarters, CFBank revised its ALLL methodology for the general reserve. Previously, the base methodology relied more heavily on industry data and loss given default rates and probability of default. Based on the fact that CFBank had been tracking historical loss rates for a significant time, the new methodology uses a historical three-year loss rate as its base methodology. Similar to before, the base methodology may be supplemented with economic and judgmental factors. Based on the change in methodology which considered portfolio migration, three-year loss rates and revised economic and judgmental factors, a $250 reduction to the allowance for loan loss was recorded during the fourth quarter of 2013. The impact on prior quarters was not considered material.

CENTRAL FEDERAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

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.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Basic				
Net earnings (loss)	$ 286	$ (385)	$ 170	$ (1,749)
Dividends on Series B preferred stock	(174)	-	(233)	-
Earnings (loss) allocated to common stockholders	$ 112	$ (385)	$ (63)	$ (1,749)
Weighted average common shares outstanding including unvested share-based payment awards	15,823,710	15,823,677	15,823,710	15,823,805
Less: Unvested share-based payment awards	-	(33)		(210)
Average shares	15,823,710	15,823,644	15,823,710	15,823,595
Basic earnings (loss) per common share (1)	$ 0.01	$ (0.02)	$ 0.00	$ (0.11)
Diluted				
Net earnings (loss) allocated to common stockholders	$ 112	$ (385)	$ (63)	$ (1,749)
Weighted average common shares outstanding for basic loss per common share	15,823,710	15,823,644	15,823,710	15,823,595
Add: Dilutive effects of assumed exercises of stock options	7,444	-	-	-
Add: Dilutive effects of assumed exercises of stock warrants	-	-	-	-
Average shares and dilutive potential common shares	15,831,154	15,823,644	15,823,710	15,823,595
Diluted earnings (loss) per common share (2)	$ 0.01	$ (0.02)	$ 0.00	$ (0.11)

(1) Basic earnings (loss) per share is less than $0.01 per share for the nine months ended September 30, 2014.
(2) Diluted earnings (loss) per share is less than $0.01 per share for the three months ended September 30, 2014.

The following stock options, preferred share conversions and warrants were not considered in computing diluted earnings (loss) per common share because the options were anti-dilutive or the Company reported a net loss for the periods presented. The shares shown do not reflect any weighting based on issuance date, and are outstanding amounts at period end.

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Stock options	614,552	247,216	621,996	247,216
Series B preferred stock	6,857,143	-	6,857,143	-
Stock warrants	1,152,125	-	1,152,125	-

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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 is not expected to 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 is not expected to 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 issue 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 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 May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (May 2014). Section A - Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40). Section B - Conforming Amendments to Other Topics and Subtopics in the Codification and Status Tables. Section C - Background Information and Basis for Conclusions. 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 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.

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.

In December 2011, the FASB amended existing guidance on disclosures about offsetting assets and liabilities. These amendments will enhance disclosures required by U.S. GAAP by requiring improved information about derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the Codification or subject to a master netting arrangement or similar agreement, irrespective of whether they are offset. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. In January 2013, the FASB clarified that ordinary trade receivables and receivables are not in the scope of the December 2011 amended guidance. These amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those years. Retrospective disclosure is required for all comparative periods presented. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition.

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.

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.

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On August 20, 2012, the Holding Company announced the successful completion of its restructured registered common stock offering. The Holding Company sold 15.0 million shares of its common stock at $1.50 per share, resulting in gross proceeds of $22.5 million before expenses. With the proceeds from the stock offering, the Holding Company contributed $13.5 million 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. In addition, the Holding Company used proceeds from the common stock offering to redeem its TARP obligations on September 26, 2012. The remaining proceeds from the restructured registered common stock offering were retained by the Company for general corporate purposes.

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.

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.

At September 30, 2014, CFBank had $37,787 in brokered deposits with maturity dates from October 2014 through August 2018. At September 30, 2014, cash, unpledged securities and deposits in other financial institutions totaled

$31,463. Brokered deposit maturities over the next four years are as follows:

September 30, 2015	$ 29,583
September 30, 2016	5,114
September 30, 2017	1,536
September 30, 2018	1,554
	$ 37,787

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Previously, because CFBank was under a regulatory order, it was prohibited from accepting or renewing brokered deposits, including reciprocal deposits in the Certificate of Deposit Account Registry Service® (CDARS) program, without FDIC approval. While under the CFBank Order, CFBank received limited waivers from the prohibition on renewal of reciprocal CDARS deposits from the FDIC, each for 90 day periods which expired on September 20, 2011, December 19, 2011, March 18, 2012, June 16, 2012, September 14, 2012 and December 31, 2013. On January 8, 2014, CFBank received a waiver for a 90-day period to allow the bank to renew deposits under the CDARS program. With the release of the CFBank Order, CFBank is no longer subject to these restrictions.

CFBank dividends serve as a potential source of liquidity to the Holding Company to meet its obligations. As of December 31, 2013, CFBank was not permitted to 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 based on future earnings. In addition, any future dividends by the Holding Company on its preferred or common stock, and any dividends or capital contributions by CFBank to the Holding Company, are also subject to prior regulatory approval in accordance with the commitments made in connection with the release and termination of the Orders. In August 2014, the Holding Company received the prior approval from the FRB for the payment of a quarterly cash dividend on its Series B Preferred Stock in the amount of $187.5, which represents a dividend of $0.3906 per share, which was prorated for the preferred shareholders who closed on July 15, 2014.

The ability of the Holding Company to pay dividends on its common stock and Series B Preferred Stock is generally dependent upon the receipt of dividends and other distributions from CFBank. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. The Holding Company also is subject to various legal and regulatory policies and requirements impacting the Holding Company's ability to pay dividends on its stock, and pursuant to the commitments made to the FRB in connection with the termination of the Holding Company Order, the Holding Company may not declare or pay dividends on its stock without the prior written non-objection of the FRB. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities, which also requires the written non-objection of the FRB. Finally, so long as the Company's Series B Preferred Stock remains outstanding, the Holding Company will be prohibited from paying dividends on (other than dividends payable solely in shares) the Company's common stock, for the then-current dividend period, unless full dividends on the Series B Preferred Stock have been paid or set aside for payment. Dividends on the Series B Preferred Stock are non-cumulative, which means that if for any reason we do not declare cash dividends on the Series B Preferred Stock for a quarterly dividend period we will have no obligation to pay any dividends for that period (i.e., the dividends will not accrue or cumulate), whether or not we declare dividends on the Series B Preferred Stock for any subsequent dividend period.

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 September 30, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
Corporate debt	$ 4,308	$ 14	$ 1	$ 4,321
State and municipal	1,902	1	19	1,884
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities - residential	728	40	-	768
Collateralized mortgage obligations	1,138	32	-	1,170
Total	$ 8,076	$ 87	$ 20	$ 8,143

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Corporate debt	$ 4,360	$ 11	$ 8	$ 4,363
State and municipal	1,926	-	7	1,919
Issued by U.S. government-sponsored entities and agencies:				-
Mortgage-backed securities - residential	934	49	-	983
Collateralized mortgage obligations	2,354	53	-	2,407
Total	$ 9,574	$ 113	$ 15	$ 9,672

There was no other-than-temporary impairment recognized in accumulated other comprehensive income (loss) for securities available for sale at September 30, 2014 or December 31, 2013.

There were no sales of securities for the three and nine months ended September 30, 2014 or September 30, 2013.

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The amortized cost and fair value of debt securities at September 30, 2014 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.

	September 30, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,272	$ 4,280	$ 2,386	$ 2,379
Due from one to five years	1,938	1,925	3,900	3,903
Mortgage-backed securities	728	768	934	983
Collateralized mortgage obligations	1,138	1,170	2,354	2,407
Total	$ 8,076	$ 8,143	$ 9,574	$ 9,672

Fair value of securities pledged was as follows:

	September 30, 2014	December 31, 2013
Pledged as collateral for:		
FHLB advances	$ 1,384	$ 2,024
Public deposits	2,057	905
Interest-rate swaps	365	443
Total	$ 3,806	$ 3,372

At September 30, 2014 and December 31, 2013, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, in an amount greater than 10% of stockholders' equity.

The following table summarizes securities with unrealized losses at September 30, 2014 and December 31, 2013 aggregated by major security type and length of time in a continuous unrealized loss position.

September 30, 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	$ 232	$ 1	$ -	$ -	$ 232	$ 1
State and municipal	-	-	881	19	881	19
Total temporarily impaired	$ 232	$ 1	$ 881	$ 19	$ 1,113	$ 20

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December 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	$ 239	$ 1	$ 1,002	$ 7	$ 1,241	$ 8
State and municipal	1,015	1	904	6	1,919	7
Total temporarily impaired	$ 1,254	$ 2	$ 1,906	$ 13	$ 3,160	$ 15

The unrealized losses in Corporate debt and State and municipal securities at September 30, 2014 and December 31, 2013, 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 maturity, the Company did not consider these securities to be other-than-temporarily impaired at September 30, 2014 and December 31, 2013.

There was no unrealized loss in Collateralized mortgage obligations at September 30, 2014 and December 31, 2013.

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.

	September 30, 2014	December 31, 2013
Commercial	$ 49,773	$ 37,526
Real estate:		
Single-family residential	40,477	32,219
Multi-family residential	29,881	32,197
Commercial	94,314	83,752
Construction	20,259	11,465

Consumer:		
Home equity lines of credit	16,466	14,851
Other	3,254	860
Subtotal	254,424	212,870
Less: ALLL	(6,256)	(5,729)
Loans, net	$ 248,168	$ 207,141

Commercial loans included $24,931 and $12,918, respectively, of commercial lines of credit which required interest only payments at September 30, 2014 and December 31, 2013.

Home equity lines of credit included $14,439 and $12,144, respectively, of loans which required interest only payments at September 30, 2014 and December 31, 2013.

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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 80% interest from Northpointe of 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 TDR, nonperforming and nonaccrual classification) are substantially reduced and, therefore no allowance is allocated to these loans. Northpointe maintains a 20% 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. At September 30, 2014 and December 31, 2013, CFBank held $14,999 and $12,743, respectively, of such loans which have been included in single-family residential loan totals above.

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 consolidated financial statements in the Company's 2013 Annual Report to Stockholders incorporated by reference into our Annual Report on Form 10-K for the year ended December 31, 2013.

The following table presents the activity in the ALLL by portfolio segment for the three and nine months ended September 30, 2014:

	Three months ended September 30, 2014							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total
Beginning balance	$ 1,605	$ 196	$ 1,211	$ 2,231	$ 474	$ 113	$ 41	$ 5,871
Addition to (reduction in) provision for loan losses	174	179	(147)	(88)	(103)	49	11	75
Charge-offs	(18)	-	-	-	-	-	-	(18)

Recoveries	-	1	-	320	-	7	-	328
Ending balance	$ 1,761	$ 376	$ 1,064	$ 2,463	$ 371	$ 169	$ 52	$ 6,256

	Nine months ended September 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	17	254	(198)	(188)	252	21	45	203
Charge-offs	(18)	-	-	(2)	-	(9)	-	(29)
Recoveries	3	2	-	328	-	18	2	353
Ending balance	$ 1,761	$ 376	$ 1,064	$ 2,463	$ 371	$ 169	$ 52	$ 6,256

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The following table presents the activity in the ALLL by portfolio segment for the three and nine months ended September 30, 2013:

	Three months ended September 30, 2013							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines of credit	Other	Total
Beginning balance	$ 1,449	$ 368	$ 1,730	$ 2,157	$ 19	$ 331	$ 11	$ 6,065
Addition to (reduction in) provision for loan losses	159	(93)	19	44	62	(113)	(2)	76
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	9	1	1	4	-	13	2	30
Ending balance	$ 1,617	$ 276	$ 1,750	$ 2,205	$ 81	$ 231	$ 11	$ 6,171

	Nine months ended September 30, 2013							
		Real Estate				Consumer		
	Commercial	Single-family	Multi-family	Commercial	Construction	Home Equity lines 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	271	(59)	267	197	81	(11)	(20)	726
Charge-offs	-	-	-	-	-	(17)	-	(17)
Recoveries	35	3	87	62	-	18	20	225
Ending balance	$ 1,617	$ 276	$ 1,750	$ 2,205	$ 81	$ 231	$ 11	$ 6,171

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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 September 30, 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	$ 410	$ 1	$ 305	$ 102	$ -	$ -	$ -	$ 818
Collectively evaluated for impairment	1,351	375	759	2,361	371	169	52	5,438
Total ending allowance balance	$ 1,761	$ 376	$ 1,064	$ 2,463	$ 371	$ 169	$ 52	$ 6,256
Loans:								
Individually evaluated for impairment	$ 865	$ 302	$ 1,658	$ 3,609	$ -	$ -	$ -	$ 6,434
Collectively evaluated for impairment	48,908	40,175	28,223	90,705	20,259	16,466	3,254	247,990
Total ending loan balance	$ 49,773	$ 40,477	$ 29,881	$ 94,314	$ 20,259	$ 16,466	$ 3,254	$ 254,424

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, 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	$ 532	$ -	$ 402	$ 191	$ -	$ -	$ -	$ 1,125
Collectively evaluated for impairment	1,227	120	860	2,134	119	139	5	4,604
Total ending allowance balance	$ 1,759	$ 120	$ 1,262	$ 2,325	$ 119	$ 139	$ 5	$ 5,729
Loans:								
Individually evaluated for impairment	992	$ 317	$ 1,759	$ 5,845	$ -	$ -	$ -	$ 8,913
Collectively evaluated for impairment	36,534	31,902	30,438	77,907	11,465	14,851	860	203,957
Total ending loan balance	$ 37,526	$ 32,219	$ 32,197	$ 83,752	$ 11,465	$ 14,851	$ 860	$ 212,870

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The following table presents loans individually evaluated for impairment by class of loans at September 30, 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 and includes accrued interest. The table presents accrual basis interest income recognized during the three and nine months ended September 30, 2014. Cash payments of interest during the three and nine months ended September 30, 2014 totaled $52 and $157.

	As of September 30, 2014			Three months ended September 30, 2014		Nine months ended September 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	$ -	$ 121	$ -	$ 121	$ -
Real estate:							
Single-family residential	339	177	-	178	-	181	-
Multi-family residential	-	-	-	-	-	-	-
Commercial:							
Non-owner occupied	590	490	-	495	-	508	-
Owner occupied	718	197	-	201	-	215	-
Land	177	151	-	152	2	-	7
Total with no allowance recorded	1,959	1,136	-	1,147	2	1,025	7
With an allowance recorded:							
Commercial	744	744	410	750	6	783	17
Real estate:							
Single-family residential	125	125	1	125	2	125	5
Multi-family residential	1,658	1,658	305	1,670	-	1,703	3
Commercial:							
Non-owner occupied	2,087	2,087	57	2,092	33	2,107	100
Owner occupied	385	385	10	386	6	390	16
Land	318	299	35	300	3	593	8
Total with an allowance recorded	5,317	5,298	818	5,323	50	5,701	149
Total	$ 7,276	$ 6,434	$ 818	$ 6,470	$ 52	$ 6,726	$ 156

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The following table presents loans individually evaluated for impairment by class of loans at December 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 and nine months ended September 30, 2013. Cash payments of interest during the three and nine months ended September 30, 2013 totaled $54 and $169, respectively.

	As of December 31, 2013			Three months ended September 30, 2013		Nine months ended September 30, 2013	
	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	$ 120	$ -	$ 248	$ -	$ 297	$ -
Real estate:							
Single-family residential	352	191	-	-	-	-	-
Multi-family residential	-	-	-	178	-	187	-
Commercial:							
Non-owner occupied	2,022	1,453	-	1,496	-	1,905	-
Owner occupied	2,021	1,070	-	1,370	-	1,418	-
Land	-	-	-	-	-	-	-
Total with no allowance recorded	4,530	2,834	-	3,292	-	3,807	-
With an allowance recorded:							
Commercial	872	872	532	793	7	831	20
Real estate:							
Single-family residential	126	126	-	477	2	478	6
Multi-family residential	1,759	1,759	402	1,866	1	1,903	3
Commercial:							
Non-owner occupied	2,158	2,158	46	2,177	35	2,199	104
Owner occupied	397	397	7	162	6	163	18
Land	812	767	138	368	5	377	17
Total with an allowance recorded	6,124	6,079	1,125	5,843	56	5,951	168
Total	$ 10,654	$ 8,913	$ 1,125	$ 9,135	$ 56	$ 9,758	$ 168

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

	September 30, 2014	December 31, 2013
Loans past due over 90 days still on accrual:		
Real estate:		
Commercial:		
Non-owner occupied	$ 187	$ -
Total over 90 days still on accrual loans	187	-
Nonaccrual loans:		
Commercial	506	563
Real estate:		
Single-family residential	570	479
Multi-family residential	1,604	1,701
Commercial:		
Non-owner occupied	490	1,453
Owner occupied	197	1,070
Land	128	420
Consumer:		
Home equity lines of credit:		
Originated for portfolio	51	52
Total nonaccrual	3,546	5,738
Total nonaccrual and nonperforming loans	$ 3,733	$ 5,738

Nonaccrual loans include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. There was one commercial real estate loan totaling $187 that was 90 days or more past due and still accruing interest at September 30, 2014 and none at December 31, 2013 included in the table above.

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The following table presents the aging of the recorded investment in past due loans by class of loans as of September 30, 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	$ -	$ -	$ 121	$ 121	$ 49,652	$ 385
Real estate:						
Single-family residential	1,161	13	299	1,473	39,004	271
Multi-family residential	-	-	-	-	29,881	1,604
Commercial:						
Non-owner occupied	379	-	187	566	51,041	490
Owner occupied	-	-	-	-	37,192	197
Land	-	-	128	128	5,387	-
Construction	-	-	-	-	20,259	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	51	-	-	51	14,856	51
Purchased for portfolio	-	120	-	120	1,439	-
Other	42	-	-	42	3,212	-
Total	$ 1,633	$ 133	$ 735	$ 2,501	$ 251,923	$ 2,998

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2013:

	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	$ -	$ -	$ 121	$ 121	$ 37,405	$ 442
Real estate:						
Single-family residential	352	268	247	867	31,352	232

Multi-family residential	-	-	-	-	32,197	1,701
Commercial:						
Non-owner occupied	-	-	923	923	42,199	530
Owner occupied	-	-	-	-	35,202	1,070
Land	-	-	420	420	5,008	-
Construction	-	-	-	-	11,465	-
Consumer:						
Home equity lines of credit:						
Originated for portfolio	52	-	-	52	12,930	52
Purchased for portfolio	123	-	-	123	1,746	-
Other	2	11	-	13	847	-
Total	$ 529	$ 279	$ 1,711	$ 2,519	$ 210,351	$ 4,027

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Troubled Debt Restructurings (TDRs):

As of September 30, 2014 and December 31, 2013, TDRs totaled $5.7 million and $6.1 million, respectively. The Company allocated $797 and $998 of specific reserves to loans whose terms had been modified in TDRs as of September 30, 2014 and December 31, 2013, respectively. The Company had not committed to lend any additional amounts as of September 30, 2014 or December 31, 2013 to customers with outstanding loans classified as nonaccrual TDRs.

During the three and nine months ended September 30, 2014, no loans were modified as a TDR, where concessions were granted to a borrower experiencing financial difficulties.

During the three months ended September 30, 2013, there were two commercial loans modified as a TDR, where concessions were granted to a borrower experiencing financial difficulties. The modified terms included converting a revolving line of credit to a 10-month term loan with a 36-month amortization and a change in the stated interest rate of the loan from 4.75% to 6.75%. The other modification consolidated two existing TDRs into one loan with a 5-year term amortizing over 15 years and a change in the stated interest rates, of 6% and 5.5%, to 5%. These TDRs had associated reserves of $76.

During the nine months ended September 30, 2013, the terms of three loans were modified as TDRs where concessions were granted to borrowers experiencing financial difficulties. In addition to the loans described in the preceding paragraph, one single-family residential loan was modified as a TDR. The modified terms included a reduction in the stated interest rate of the loan from 6.5% to 3.5%, for a period of six months, and a deferral of two interest payments to the end of the loan. The impact to the income statement was approximately $5. These TDRs had associated reserves of $143.

There were no TDRs in payment default or that became nonperforming during the period ended September 30, 2014 and 2013. 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 September 30, 2014 and 2013 that did not meet the definition of a TDR. These loans had a total recorded investment of $2,709 and $4,026 as of September 30, 2014 and 2013, 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.

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(Dollars in thousands)

Nonaccrual loans include loans that were modified and identified as TDRs and the loans are not performing. At September 30, 2014 and December 31, 2013, nonaccrual TDRs were as follows:

	September 30, 2014	December 31, 2013
Commercial	$ 385	$ 442
Real estate:		
Single-family residential	177	190
Multi-family residential	1,604	1,701
Commercial:		
Non-owner occupied	-	-
Owner occupied	197	238
Total	$ 2,363	$ 2,571

Nonaccrual loans at September 30, 2014 and December 31, 2013 do not include $3,332 and $3,517, 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.

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.

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The recorded investment in loans by risk category and by class of loans as of September 30, 2014 and based on the most recent analysis performed follows. There were no loans rated doubtful at September 30, 2014.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 160	$ 48,458	$ 473	$ 682	$ 49,773
Real estate:					
Single-family residential	39,862	-	-	615	40,477
Multi-family residential	-	27,469	-	2,412	29,881
Commercial:					
Non-owner occupied	143	46,043	120	5,301	51,607
Owner occupied	-	34,620	1,530	1,042	37,192
Land	79	2,502	-	2,934	5,515
Construction	8,760	11,499	-	-	20,259
Consumer:					
Home equity lines of credit:					
Originated for portfolio	14,756	-	-	151	14,907
Purchased for portfolio	1,078	-	317	164	1,559
Other	3,254	-	-	-	3,254
	$ 68,092	$ 170,591	$ 2,440	$ 13,301	$ 254,424

The recorded investment in loans by risk category and by class of loans as of December 31, 2013 follows. There were no loans rated doubtful at December 31, 2013.

	Not Rated	Pass	Special Mention	Substandard	Total
Commercial	$ 228	$ 35,424	$ 921	$ 953	$ 37,526

Real estate:					
Single-family residential	31,685	-	-	534	32,219
Multi-family residential	-	29,667	-	2,530	32,197
Commercial:					
Non-owner occupied	3,170	34,834	556	4,561	43,121
Owner occupied	-	31,489	1,045	2,669	35,203
Land	87	2,023	-	3,318	5,428
Construction	2,115	9,350	-	-	11,465
Consumer:					
Home equity lines of credit:					
Originated for portfolio	12,828	-	-	154	12,982
Purchased for portfolio	1,285	-	414	170	1,869
Other	860	-	-	-	860
	$ 52,258	$ 142,787	$ 2,936	$ 14,889	$ 212,870

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(Dollars in thousands)

NOTE 5 - FAIR VALUE

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

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

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

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

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

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

Derivatives: The fair value of derivatives, which includes yield maintenance provisions, interest rate lock commitments and interest rate swaps, is based on valuation models using observable market data as of the measurement date (Level 2).

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

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by a third-party appraisal management company approved by the Board of Directors annually. Once received, the loan officer or a member of the credit department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. Appraisals are updated as needed based on facts and circumstances associated with the individual properties. Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. Appraisers may make adjustments to the sales prices of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management applies an additional discount to real estate appraised values, typically to reflect changes in market conditions since the date of the appraisal and to cover disposition costs (including selling expenses) based on the intended disposition method of the property. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

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Loans held for sale: Loans originated and held for sale are carried at fair value, as determined by outstanding commitments from third party investors (Level 2). Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower of cost or market, and are excluded from the fair value measurement table. These loans totaled $3,292 at September 30, 2014.

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at September 30, 2014 using Significant Other Observable Inputs(Level 2)	
Financial Assets:		
Securities available for sale:		
Corporate debt	$	4,321
State and municipal		1,884
Issued by U.S. government-sponsored entities and agencies:		
Mortgage-backed securities - residential		768
Collateralized mortgage obligations		1,170
Total securities available for sale	$	8,143
Loans held for sale		2,568
Yield maintenance provisions (embedded derivatives)	$	318
Interest rate lock commitments	$	44
Financial Liabilities:		
Interest-rate swaps	$	318

	Fair Value Measurements at December 31, 2013 using Significant Other Observable Inputs(Level 2)
Financial Assets:	
Securities available for sale:	
Corporate debt	$ 4,363
State and municipal	1,919
Issued by U.S. government-sponsored entities and agencies:	
Mortgage-backed securities - residential	983
Collateralized mortgage obligations	2,407
Total securities available for sale	$ 9,672
Loans held for sale	3,285
Yield maintenance provisions (embedded derivatives)	$ 599
Interest rate lock commitments	$ 16
Financial Liabilities:	
Interest-rate swaps	$ 599

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

The Company had no assets or liabilities measured at fair value on a recurring basis that were measured using Level 1 or Level 3 inputs at September 30, 2014 or December 31, 2013.

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

	Fair Value Measurements at September 30, 2014 Using Significant Unobservable Inputs (Level 3)
Impaired loans:	
Commercial	$ -
Real Estate:	
Single-family residential	300
Multi-family residential	1,301
Commercial:	
Non-owner occupied	-
Owner occupied	223
Land	158
Total impaired loans	$ 1,982

	Fair Value Measurements at December 31, 2013 Using Significant Unobservable Inputs (Level 3)
Impaired loans:	
Commercial	$ -
Real Estate:	
Single-family residential	316
Multi-family residential	1,301
Commercial:	
Non-owner occupied	-
Owner occupied	234

Land	629
Total impaired loans	$ 2,480

The Company had no assets or liabilities, that were material, measured at fair value on a non-recurring basis that were measured using Level 1 or Level 2 inputs at September 30, 2014 or December 31, 2013.

Loan servicing rights, which are carried at fair value at September 30, 2014 and December 31, 2013, are not material based on the value of the asset.

Impaired loans, which are carried at the fair value of the collateral for collateral-dependent loans, had an unpaid principal balance of $3,037 with a valuation allowance of $709, at September 30, 2014. There were no write-downs of impaired collateral-dependent loans during the three and nine months ended September 30, 2014 or 2013. Impaired loans carried at the fair value of collateral had an unpaid principal balance of $3,465, with a valuation allowance of $985 at December 31, 2013.

During the three and nine months ended September 30, 2014, the Company did not have any significant transfers of assets or liabilities between those measured using Level 1, 2 or 3 inputs. The Company recognizes transfers of assets and liabilities between Level 1 and 2 inputs based on the information relating to those assets and liabilities at the end of the reporting period.

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(Dollars in thousands)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2014:

	Fair Value	Valuation Technique(s)	Unobservable Inputs	(Range) Weighted Average
Impaired loans:				
Commercial real estate:				
Single-family residential	300	Comparable sales approach	Adjustment for differences between the comparable market transactions	(-17.67%, 2.35%) -8.33%
Multi-family residential	1,301	Comparable sales approach	Adjustment for differences between the comparable market transactions	-20.59%
Commercial:				
Owner occupied	223	Comparable sales approach	Adjustment for differences between the comparable market transactions	-12.21%
Land	158	Comparable sales approach	Adjustment for differences between the comparable market transactions	8.10%

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2013:

	Fair Value	Valuation Technique(s)	Unobservable Inputs	(Range) Weighted Average
Impaired loans:				
Commercial real estate:				
Single -family residential	316	Comparable sales approach	Adjustment for differences between the comparable market transactions	(-17.67%, 2.35%) -8.33%
Multi-family residential	1,301	Comparable sales approach	Adjustment for differences between the comparable market transactions	-20.59%

Commercial:				
Owner occupied	234	Comparable sales approach	Adjustment for differences between the comparable market transactions	-12.21%
Land	629	Comparable sales approach	Adjustment for differences between the comparable market transactions	(-8.59% , 8.10%) 1.44%

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(Dollars in thousands)

Financial Instruments Recorded Using Fair Value Option

The Company has elected the fair value option for loans originated for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Loans originated as construction loans, that were subsequently transferred to held for sale, are carried at the lower cost or market and are not included. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on loans held for investment. None of these loans were 90 days or more past due or on nonaccrual as of September 30, 2014 or December 31, 2013.

As of September 30, 2014 and December 31, 2013, the aggregate fair value, contractual balance (including accrued interest) and gain or loss were as follows:

	September 30, 2014	December 31, 2013
Aggregate fair value	$ 2,568	$ 3,285
Contractual balance	2,540	3,270
Gain (loss)	28	15

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2014 and 2013 for loans held for sale were:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest income	$ 31	$ 13	$ 84	$ 29
Interest expense	-	-	-	-
Change in fair value	(3)	26	13	6
Total change in fair value	$ 28	$ 39	$ 97	$ 35

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(Dollars in thousands)

The carrying amounts and estimated fair values of financial instruments at September 30, 2014 were as follows:

	Fair Value Measurements at September 30, 2014 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 30,184	$ 30,184	$ -	$ -	$ 30,184
Interest-bearing deposits in other financial institutions	742	742	-	-	742
Securities available for sale	8,143	-	8,143	-	8,143
Loans held for sale	5,861	-	2,568	-	2,568
Loans, net	248,168	-	-	249,017	249,017
FHLB stock	1,942	n/a	n/a	n/a	n/a
Accrued interest receivable	64	4	60	-	64
Yield maintenance provisions (embedded derivatives)	318	-	318	-	318
Interest rate lock commitments	44	-	44	-	44
Financial liabilities					
Deposits	$ (250,963)	$ (105,025)	$ (146,478)	$ -	$ (251,503)
FHLB advances and other borrowings	(14,500)	-	(14,574)	-	(14,574)
Advances by borrowers for taxes and insurance	(212)	-	-	(212)	(212)
Subordinated debentures	(5,155)	-	(2,786)	-	(2,786)
Accrued interest payable	(48)	-	(48)	-	(48)
Interest-rate swaps	(318)	-	(318)	-	(318)

The carrying amounts and estimated fair values of financial instruments at December 31, 2013 were as follows:

	Fair Value Measurements at December 31, 2013 Using:				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 19,160	$ 19,160	$ -	$ -	$ 19,160
Interest-bearing deposits in other financial institutions	1,982	1,982	-	-	1,982
Securities available for sale	9,672	-	9,672	-	9,672
Loans held for sale	3,285	-	3,285	-	3,285

Loans, net	207,141	-	-	207,445	207,445
FHLB stock	1,942	n/a	n/a	n/a	n/a
Accrued interest receivable	50	4	46	-	50
Yield maintenance provisions (embedded derivatives)	599	-	599	-	599
Interest rate lock commitments	16	-	16	-	16
Financial liabilities					
Deposits	$ (208,309)	$ (89,266)	$ (119,933)	$ -	$ (209,199)
FHLB advances and other borrowings	(16,526)	-	(10,051)	(6,526)	(16,577)
Subordinated debentures	(5,155)	-	(3,004)	-	(3,004)
Accrued interest payable	(255)	-	(255)	-	(255)
Interest-rate swaps	(599)	-	(599)	-	(599)

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The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Interest-Bearing Deposits in Other Financial Institutions

The carrying amounts of interest-bearing deposits in other financial institutions approximate fair values and are classified as Level 1.

FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

Deposits