OptimumBank Holdings, Inc.
Form 10-Q
May 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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: **000-50755**

OPTIMUMBANK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Florida	**55-0865043**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-900-2800

(Registrant's telephone number, including area code)

N/A

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,536,814 shares of Common Stock, $.01 par value, issued and outstanding as of May 12, 2015.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

Assets	March 31, 2015 (Unaudited)	December 31, 2014
Cash and due from banks	$ 12,149	$ 11,601
Interest-bearing deposits with banks	641	473
Total cash and cash equivalents	12,790	12,074
Securities available for sale	27,170	26,748
Loans, net of allowance for loan losses of $2,248 and $2,244	79,449	75,829
Federal Home Loan Bank stock	1,253	1,229
Premises and equipment, net	2,801	2,836
Foreclosed real estate, net	4,698	4,880
Accrued interest receivable	445	426
Other assets	505	508
Total assets	$ 129,111	$ 124,530
Liabilities and Stockholders' Equity		
Liabilities:		
Noninterest-bearing demand deposits	7,669	9,195
Savings, NOW and money-market deposits	25,312	24,344
Time deposits	58,564	58,064
Total deposits	91,545	91,603
Federal Home Loan Bank advances	26,740	22,740
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	463	241
Official checks	331	219
Other liabilities	1,749	1,593

Total liabilities	125,983	121,551
Stockholders' equity:		
Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value; 50,000,000 shares authorized 9,536,814 and 9,305,236 shares issued and outstanding in 2015 and 2014	95	93
Additional paid-in capital	33,167	32,961
Accumulated deficit	(30,340)	(30,158)
Accumulated other comprehensive income	206	83
Total stockholders' equity	3,128	2,979
Total liabilities and stockholders' equity	$ 129,111	$ 124,530

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Interest income:		
Loans	$ 887	$ 973
Securities	162	249
Other	18	13
Total interest income	1,067	1,235
Interest expense:		
Deposits	155	185
Borrowings	57	61
Total interest expense	212	246
Net interest income	855	989
Provision for loan losses	0	0
Net interest income after provision for loan losses	855	989
Noninterest income:		
Service charges and fees	16	16
Other	84	101
Total noninterest income	100	117
Noninterest expenses:		
Salaries and employee benefits	466	524
Professional fees	101	109
Occupancy and equipment	126	129
Data processing	71	81
Insurance	29	36
Foreclosed real estate, net	20	(439)
Regulatory assessment	69	105
Other	255	231

Total noninterest expenses	1,137	776
Net (loss) earnings	$ (182)	$ 330
Net (loss) earnings per share:		
Basic	$ (.02)	$ .04
Diluted	$ (.02)	$ .04
Dividends per share	$ —	$ —

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2015	2014
Net (loss) earnings	$ (182)	$ 330
Other comprehensive income		
Unrealized gains on securities available for sale:		
Unrealized gain arising during the period	197	203
Deferred income taxes on above change	74	78
Total other comprehensive income	123	125
Comprehensive (loss) income	$ (59)	$ 455

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity

Three Months Ended March 31, 2015 and 2014

(Dollars in thousands)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2013	8,011,077	$ 80	31,463	(31,763)	4	(216)
Common stock issued as compensation to directors (unaudited)	174,861	2	208	—	—	210
Net earnings for the three months ended March 31, 2014 (unaudited)	—	—	—	330	—	330
Net change in unrealized gain on securities available for sale (unaudited)	—	—	—	—	125	125
Balance at March 31, 2014 (unaudited)	8,185,938	$ 82	31,671	(31,433)	129	449
Balance at December 31, 2014	9,305,236	93	32,961	(30,158)	83	2,979
Common stock issued as compensation to directors (unaudited)	231,578	2	206	—	—	208
Net loss for the three months ended March 31, 2015 (unaudited)	—	—	—	(182)	—	(182)
Net change in unrealized gain on securities available for sale (unaudited)	—	—	—	—	123	123
Balance at March 31, 2015 (unaudited)	9,536,814	$ 95	33,167	(30,340)	206	3,128

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Three Months Ended March 31, 2015	2014
Cash flows from operating activities:		
Net (loss) earnings	$(182)	$330
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	41	47
Gain on sale of securities	(32)	—
Net amortization of fees, premiums and discounts	96	63
Provision for losses on foreclosed real estate	—	9
Gain on sale of foreclosed real estate	(3)	(449)
Write-down on foreclosed real estate	—	150
Common stock issued as compensation	208	210
(Increase) decrease in accrued interest receivable	(19)	2
(Increase) decrease in other assets	(71)	23
Increase (decrease) in official checks and other liabilities	268	(184)
Net cash provided by operating activities	306	201
Cash flows from investing activities:		
Purchases of securities	(3,235)	(9,055)
Principal repayments, sales and calls of securities	2,964	894
Net (increase) decrease in loans	(3,638)	1,210
Purchases of premises and equipment	(6)	(46)
(Purchase) redemption FHLB stock	(24)	57
Proceeds from sale of foreclosed real estate	185	1,000
Net cash used in investing activities	(3,754)	(5,940)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(58)	3,128
Net increase in advanced payments by borrowers for taxes and insurance	222	309
Proceeds from FHLB Advances	4,000	—
Net cash provided by financing activities	4,164	3,437

Net increase (decrease) in cash and cash equivalents	716	(2,302)
Cash and cash equivalents at beginning of the period	12,074	13,881
Cash and cash equivalents at end of the period	$12,790	$11,579

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Three Months Ended March 31, 2015	2014
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 176	$ 204
Income taxes	$ —	$ —
Noncash transactions:		
Change in accumulated other comprehensive income, net change in unrealized gain on securities available for sale	$ 123	$ 125
Loans transferred to foreclosed real estate	$ —	$ 551

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) ***General.*** OptimumBank Holdings, Inc. (the "Holding Company") is a one-bank holding company and owns 100% of OptimumBank (the "Bank"), a Florida-chartered commercial bank. The Bank's wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holding 1503, LLC, all of which were formed in 2009; OB Real Estate Holdings 1645 formed in 2010; OB Real Estate Holdings Northwood formed in 2011; and OB Real Estate Holdings 1692 and OB Real Estate Holdings 1704 formed in 2012 (the "Real Estate Holding Subsidiaries"). The Holding Company's only business is the operation of the Bank and its subsidiaries (collectively, the "Company"). The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of commercial banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. The Real Estate Holding Subsidiaries are primarily engaged in holding and disposing of foreclosed real estate. OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holdings 1503, LLC had no activity in 2014 or 2013.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at March 31, 2015, and the results of operations and cash flows for the three-month periods ended March 31, 2015 and 2014. The results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results to be expected for the full year.

Going Concern Status. The Company is in technical default with respect to its $5,155,000 Junior Subordinated Debenture ("Debenture"). The holders of the debenture could demand payment of the $5,155,000 principal balance plus accrued and unpaid interest totaling $832,000 at March 31, 2015. No adjustments to the accompanying consolidated financial statements have been made as a result of this uncertainty. Management's plans with regard to this matter are as follows: A Director of the Company has agreed to purchase the Debenture and has agreed to provide a forbearance of the payment to the Company upon consummation of the purchase. Although the agreed upon purchase price for the Debenture has been tendered, the Trustee of the Debenture (the "Trustee") has received conflicting direction and therefore on December 11, 2014, the Trustee commenced an Action for Interpleader in the United States District Court for the Southern District of New York (the "Debenture Litigation"). Based upon the underlying Debenture documents, Management does not believe the Trustee will call a Default at this time, absent a ruling by the Court in the Debenture Litigation.

Comprehensive (Loss) Income. Generally accepted accounting principles generally require that recognized revenue, expenses, gains and losses be included in net (loss) earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items along with net (loss) earnings, are components of comprehensive (loss) income. The only component of other comprehensive (loss) income is the net change in the unrealized gain on the securities available for sale.

Income Taxes. The Company assessed its earnings history and trends and estimates of future earnings, and determined that the deferred tax asset could not be realized as of March 31, 2015. Accordingly, a valuation allowance was recorded against the net deferred tax asset.

Recent Pronouncements.
In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-03, *Interest-Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs.* The ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. ASU 2015-03 is effective for the first interim or annual period beginning after December 15, 2015. Early adoption of the ASU 2015-03 is permitted for financial statements that have not been previously issued. The new guidance should be applied on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The adoption of this guidance is not expected to have any impact on the Company’s consolidated financial statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

Recent Regulatory Developments

Basel III Rules. On July 2, 2013, the Federal Reserve Board ("FRB") approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules began for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. The provisions of the final rules are not expected to have a material impact on the Bank.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

(2) ***Securities.*** Securities have been classified according to management's intent. The carrying amount of securities and approximate fair values are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At March 31, 2015:				
Securities Available for Sale-				
Mortgage-backed securities	$ 12,215	$ 173	$ (7)	$ 12,381
U.S. Government and agency securities	14,626	178	(15)	14,789
Total	$ 26,841	$ 351	$ (22)	$ 27,170
At December 31, 2014:				
Securities Available for Sale-				
Mortgage-backed securities	$ 14,621	$ 164	$ (25)	$ 14,760
U.S. Government and agency securities	11,995	33	(40)	11,988
Total	$ 26,616	$ 197	$ (65)	$ 26,748

Gross proceeds received with respect to the sale of securities available for sale were $1,986,000 during the three month period ended March 31, 2015. Gross gains of $32,000 were recognized in connection with these sales.

The amortized cost and carrying value of securities at March 31, 2015 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without cost of prepayment penalties. Securities not due at a single maturity date are shown separately (in thousands):

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in ten years or more	$ 14,626	$ 14,789
Mortgage-backed securities	12,215	12,381
	$ 26,841	$ 27,170

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

	At March 31, 2015			
	Over Twelve Months		Less Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Mortgage-backed securities	$(7)	$2,485	$—	$—
U.S. Government and agency securities	—	—	(15)	1,737
	$(7)	$2,485	$(15)	$1,737

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

(2) ***Securities, Continued.***

	At December 31, 2014			
	Over Twelve Months		Less Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Mortgage-backed securities	$(25)	$2,553	$—	$—
U.S. Government and agency securities	—	—	(40)	6,402
	$(25)	$2,553	$(40)	$6,402

At March 31, 2015, the unrealized losses on six investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment (“OTTI”) losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company’s position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

In evaluating mortgage-backed securities with unrealized losses, management utilizes various resources, including input from independent third-party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue, and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the prescribed data set of FICO score, locations, LTV and documentation type, and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

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

	At March 31, 2015	At December 31, 2014
Residential real estate	$21,374	$21,276
Multi-family real estate	3,947	1,979
Commercial real estate	31,686	31,255
Land and construction	6,148	6,177
Commercial	18,343	17,180
Consumer	20	20
Total loans	81,518	77,887
Add (deduct):		
Net deferred loan fees, costs and premiums	179	186
Allowance for loan losses	(2,248)	(2,244)
Loans, net	$79,449	$75,829

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(3) ***Loans, Continued.*** An analysis of the change in the allowance for loan losses follows (in thousands):

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Unallocated	Total
Three Months Ended March 31, 2015:								
Beginning balance	$ 65	$ 2	$ 1,589	$ 99	$ 22	$ —	$ 467	$ 2,244
Provision (credit) for loan losses	5	19	90	7	47	(4)	(164)	—
Charge-offs	—	—	—	—	—			
Recoveries	—	—	—	—	—	4	—	4
Ending balance	$ 70	$ 21	$ 1,679	$ 106	$ 69	$ —	$ 303	$ 2,248
Three Months Ended March 31, 2014:								
Beginning balance	$ 49	$ 4	$ 934	$ 458	$ 61	$ 0	$ 705	$ 2,211
Provision (credit) for loan losses	4	3	259	11	26	(4)	(299)	—
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	4	—	4
Ending balance	$ 53	$ 7	$ 1,193	$ 469	$ 87	$ 0	$ 406	$ 2,215
At March 31, 2015:								
Individually evaluated for impairment:								
Recorded investment	$ 6,010	$ —	$ 4,034	$ —	$ 1,134	$ —	$ —	$ 11,178
Balance in allowance for loan losses	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment:								
Recorded investment	$ 15,364	$ 3,947	$ 27,652	$ 6,148	$ 17,209	$ 20	$ —	$ 70,340
Balance in allowance for loan losses	$ 70	$ 21	$ 1,679	$ 106	$ 69	$ —	$ 303	$ 2,248
At December 31, 2014:								

Individually evaluated for impairment:								
Recorded investment	$4,838	$ —	$4,096	$ —	$1,151	$ —	$ —	$10,085
Balance in allowance for loan losses	$—	$ —	$—	$ —	$—	$ —	$ —	$—
Collectively evaluated for impairment:								
Recorded investment	$16,438	$ 1,979	$27,159	$ 6,177	$16,029	$ 20	$ —	$67,802
Balance in allowance for loan losses	$65	$ 2	$1,589	$ 99	$22	$ —	$ 467	$2,244

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

(3) ***Loans, Continued.*** The Company has divided the loan portfolio into six portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten in accordance with written policies set forth and approved by the Board of Directors ("Board"). The portfolio segments identified by the Company are as follows:

Residential Real Estate, Multi-Family Real Estate, Commercial Real Estate, Land and Construction. Residential real estate loans are underwritten based on repayment capacity and source, value of the underlying property, credit history and stability. Multi-family real estate and commercial real estate loans are secured by the subject property and are underwritten based on among other factors, loan to value limits, cash flow coverage and general creditworthiness of the obligors. Land and construction loans to borrowers are to finance the construction of commercial and investment properties. These loans are categorized as construction loans during the construction period, later converting to commercial real estate loans after the construction is complete and amortization of the loan begins. Real estate development and construction loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Real estate development and construction loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Development and construction loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or investment use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Commercial. Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Company takes as collateral a security interest in any available real estate, equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets. These loans are also affected by adverse economic conditions should they prevail within the Company's local market.

Consumer. Consumer loans are extended through an existing online consumer credit marketplace that brings together consumers in search of lower cost unsecured installment loans and investors to fund the loans. These loans are fully amortizing with terms of either 36 or 60 months. Risk is mitigated by the fact that the loans are of smaller individual amounts and reliance on sophisticated underwriting and pricing models. Consumer loans are also extended for various purposes, including purchases of automobiles, recreational vehicles, and boats, as well as home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

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

	Pass	OLEM (Other Loans Especially Mentioned)	Sub-standard	Doubtful	Loss	Total
At March 31, 2015:						
Residential real estate	$15,365	$ —	$ 6,009	$ —	$ —	$21,374
Multi-family real estate	3,947	—	—	—	—	3,947
Commercial real estate	28,872	595	2,219	—	—	31,686
Land and construction	4,209	1,939	—	—	—	6,148
Commercial	14,144	—	4,199	—	—	18,343
Consumer	20	—	—	—	—	20
Total	$66,557	$ 2,534	$ 12,427	$ —	$ —	$81,518
At December 31, 2014:						
Residential real estate	$15,170	$ —	$ 6,106	$ —	$ —	$21,276
Multi-family real estate	1,979	—	—	—		1,979
Commercial real estate	28,391	602	2,262	—	—	31,255
Land and construction	4,232	1,945	—	—	—	6,177
Commercial	12,938	—	4,242	—	—	17,180
Consumer	20	—	—	—	—	20
Total	$62,730	$ 2,547	$ 12,610	$ —	$ —	$77,887

Pass – a Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. These are loans that conform in all aspects to bank policy and regulatory requirements, and no repayment risk has been identified.

OLEM (Other Loans Especially Mentioned) – an Other Loan Especially Mentioned has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date.

Substandard – a Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – a loan classified Doubtful has all the weaknesses inherent in one classified Substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – a loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Loss.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

(3) ***Loans, Continued.*** Age analysis of past-due loans is as follows (in thousands):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At March 31, 2015:							
Residential real estate	$—	$—	$ —	$—	$18,087	$ 3,287	$21,374
Multi-family real estate	—	—	—	—	3,947	—	3,947
Commercial real estate	—	—	—	—	30,661	1,025	31,686
Land and construction	—	—	—	—	6,148	—	6,148
Commercial	—	—	—	—	17,209	1,134	18,343
Consumer	—	—	—	—	20	—	20
Total	$—	$—	$ —	$—	$76,072	$ 5,446	$81,518
At December 31, 2014:							
Residential real estate	$—	$1,267	$ —	$1,267	$17,910	$ 2,099	$21,276
Multi-family real estate	—	—	—	—	1,979	—	1,979
Commercial real estate	293	—	—	293	29,895	1,067	31,255
Land and construction	—	—	—	—	6,177	—	6,177
Commercial	—	—	—	—	16,029	1,151	17,180
Consumer	—	—	—	—	20	—	20
Total	$293	$1,267	$ —	$1,560	$72,010	$ 4,317	$77,887

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

	At March 31, 2015			At December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Residential real estate	$6,010	$6,516	$ —	$4,838	$5,345	$ —

Commercial real estate	4,034	5,848	—	4,096	5,910	—
Commercial	1,134	1,376	—	1,151	1,392	—
Total	$11,178	$13,740	$ —	$10,085	$12,647	$ —

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

(3) ***Loans, Continued.*** The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	For the Period Ended March 31, 2015			For the Period Ended March 31, 2014		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate	$ 5,622	$ 34	$ 84	$ 7,000	$ 49	$ 112
Commercial real estate	$ 4,066	$ 21	$ 63	$ 4,867	$ 21	$ 39
Commercial	$ 1,140	$ —	$ 16	$ 1,205	$ —	$ 16
Total	$ 10,828	$ 55	$ 163	$ 13,072	$ 70	$ 167

No loans have been determined to be troubled debt restructurings during the three months ended March 31, 2015 or 2014.

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at March 31, 2015 of the regulatory capital requirements and the Bank's capital on a percentage basis:

	Bank	Consent Order Regulatory Requirement
Tier I capital to total average assets	6.92 %	8.00 %
Tier I capital to risk-weighted assets	9.14 %	
Common equity Tier I capital to risk-weighted assets	9.14 %	
Total capital to risk-weighted assests	10.40%	12.00 %

At March 31, 2015, the Bank is adequately capitalized. As a result of the Consent Order discussed in Note 9, the Bank cannot be categorized higher than "adequately capitalized" until the Consent Order is lifted, even if its ratios were to exceed those required to be a "well capitalized" bank.

(5) ***(Loss)*** **Earnings** ***Per Share***. Basic (loss) earnings per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. For 2015 basic and diluted loss per share is the same due to the net loss incurred by the Company. For 2014 basic and diluted earnings per share are the same because stock options outstanding during the period were not dilutive due to their exercise prices exceeding the fair value of the Company's common stock during the period. (Loss) earnings per common share have been computed based on the following:

	Three Months Ended March 31,	
	2015	2014
Weighted-average number of common shares outstanding used to calculate basic and diluted (loss) earnings per common share	9,463,365	8,020,427

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

(6) ***Stock-Based Compensation.*** On December 27, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan ("2011 Plan"). A total of 74,961 (adjusted for one-for-four reverse common stock split) shares of common stock are available to be issued under the 2011 Plan. Options, restricted stock, performance share awards and bonus share awards in lieu of obligations may be issued under the 2011 Plan. Both incentive stock options and nonqualified stock options can be granted under the 2011 Plan. The exercise price of the stock options cannot be less than the fair market value of the common stock on the date of grant. Options must be exercised within ten years of the date of grant. The Company's prior plan was terminated on February 27, 2011. As of March 31, 2015, 475,039 (adjusted for one-for-four reverse common stock split) shares of common stock have been granted under the 2011 Plan as compensation to directors for services rendered. Fair value of the shares of common stock as of the dates of the grants totaled approximately $208,000 during the three month period ended March 31, 2015. Such amounts have been reflected as expense in the accompanying consolidated statements of operations. Activity in the prior plan is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding and exercisable at December 31, 2014 and March 31, 2015	1,444	145.12	.75 years	$ —

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations
At March 31, 2015:						
Residential real estate	$1,323	$ —	$ —	$1,323	$507	$ —
Commercial real estate	2,878	—	—	2,878	3,269	—
Commercial	1,134	—	—	1,134	242	—
	$5,335	$ —	$ —	$5,335	$4,018	$ —
Foreclosed real estate	$4,698	$ —	$ —	$4,698	$1,143	$ —

At December 31, 2014:						
Residential real estate	$1,387	$ —	$ —	$1,387	$507	$ —
Commercial real estate	3,029	—	—	3,029	3,269	—
Commercial	1,151	—	—	1,151	242	—
	$5,567	$ —	$ —	$5,567	$4,018	$ —
Foreclosed real estate	$4,880	$ —	$ —	$4,880	$1,143	$ —

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited) Continued

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

	At March 31, 2015			At December 31, 2014		
	Carrying Amount	Fair Value	**Level**	Carrying Amount	Fair Value	**Level**
Financial assets:						
Cash and cash equivalents	$12,790	$12,790	1	$12,074	$12,074	1
Securities available for sale	27,170	27,170	2	26,748	26,748	2
Loans	79,449	79,245	3	75,829	75,621	3
Federal Home Loan Bank stock	1,253	1,253	3	1,229	1,229	3
Accrued interest receivable	445	445	3	426	426	3
Financial liabilities:						
Deposit liabilities	91,545	91,790	3	91,603	91,849	3
Federal Home Loan Bank advances	26,740	26,747	3	22,740	22,744	3
Junior subordinated debenture	5,155	4,828	3	5,155	4,828	3