CENTRAL FEDERAL CORP
Form 10-Q
November 12, 2010

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

(Mark one)

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from __________ to __________

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

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

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices) (Zip Code)
(330) 666-7979
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

As of October 31, 2010, there were 4,127,798 shares of the registrant s Common Stock outstanding.

FORM 10-Q
QUARTER ENDED SEPTEMBER 30, 2010
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CENTRAL FEDERAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)
(Unaudited)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 34,015	$ 2,973
Securities available for sale	29,501	21,241
Loans held for sale	1,875	1,775
Loans, net of allowance of $10,057 and $7,090	202,709	231,105
Federal Home Loan Bank stock	1,942	1,942
Loan servicing rights	63	88
Foreclosed assets, net	2,348	
Premises and equipment, net	6,661	7,003
Other intangible assets	139	169
Bank owned life insurance	4,111	4,017
Accrued interest receivable and other assets	3,588	3,429
	$ 286,952	$ 273,742
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 20,337	$ 17,098
Interest bearing	217,390	193,990
Total deposits	237,727	211,088
Short-term Federal Home Loan Bank advances		2,065
Long-term Federal Home Loan Bank advances	23,942	29,942
Advances by borrowers for taxes and insurance	93	161
Accrued interest payable and other liabilities	3,484	2,104
Subordinated debentures	5,155	5,155
Total liabilities	270,401	250,515
Stockholders equity		
Preferred stock, Series A, $.01 par value; $7,225 aggregate liquidation value, 1,000,000 shares authorized; 7,225 shares issued	7,057	7,021
Common stock, $.01 par value; shares authorized; 12,000,000, shares issued; 4,680,331 in 2010 and 4,658,120 in 2009	47	47
Common stock warrant	217	217
Additional paid-in capital	27,481	27,517
Retained earnings (accumulated deficit)	(15,220)	(9,034)
Accumulated other comprehensive income	214	704
Treasury stock, at cost; 558,533 shares	(3,245)	(3,245)

Total stockholders equity		16,551		23,227
	$	286,952	$	273,742

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Interest and dividend income				
Loans, including fees	$ 2,863	$ 3,239	$ 9,083	$ 9,962
Securities	154	278	522	863
Federal Home Loan Bank stock dividends	22	26	65	73
Federal funds sold and other	18	9	41	28
	3,057	3,552	9,711	10,926
Interest expense				
Deposits	785	1,125	2,594	3,706
Short-term Federal Home Loan Bank advances and other debt				1
Long-term Federal Home Loan Bank advances and other debt	172	249	526	799
Subordinated debentures	44	46	125	155
	1,001	1,420	3,245	4,661
Net interest income	2,056	2,132	6,466	6,265
Provision for loan losses	617	4,776	7,303	6,683
Net interest income after provision for loan losses	1,439	(2,644)	(837)	(418)
Noninterest income				
Service charges on deposit accounts	81	97	225	258
Net gains on sales of loans	244	170	575	501
Loan servicing fees, net	5	8	15	26
Net gain on sales of securities	228		468	
Earnings on bank owned life insurance	28	33	94	97
Other	1	5	13	18
	587	313	1,390	900
Noninterest expense				
Salaries and employee benefits	1,113	1,133	3,226	3,276
Occupancy and equipment	47	128	160	412
Data processing	150	148	469	455
Franchise taxes	75	86	253	264
Professional fees	305	152	783	594

Director fees		45		29		97		80
Postage, printing and supplies		24		21		126		133
Advertising and promotion		30		12		85		26
Telephone		28		26		79		78
Loan expenses		12		15		55		47
Foreclosed assets, net				(1)		1		(1)
Depreciation		126		114		390		350
FDIC Premiums		170		111		420		447
Amortization of intangibles		10				30		
Other		85		85		251		260
		2,220		2,059		6,425		6,421
Loss before income taxes		(194)		(4,390)		(5,872)		(5,939)
Income tax expense		38		2,298		8		1,757
Net loss		(232)		(6,688)		(5,880)		(7,696)
Preferred stock dividends and accretion of unearned discount on preferred stock		(103)		(102)		(307)		(305)
Net loss attributable to common stockholders	$	(335)	$	(6,790)	$	(6,187)	$	(8,001)
Loss per common share:								
Basic	$	(0.08)	$	(1.66)	$	(1.51)	$	(1.95)
Diluted	$	(0.08)	$	(1.66)	$	(1.51)	$	(1.95)

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)

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

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock	Common Stock Warrants	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2009	$ 6,989	$ 47	$ 217	$ 27,455	$ 1,262	$ 350	$ (3,245)	$ 33,075
Comprehensive loss:								
Net loss					(7,696)			(7,696)
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects						259		259
Total comprehensive loss								(7,437)
Preferred stock offering costs	(13)							(13)
Accretion of discount on preferred stock	34				(34)			
Release of 8,509 stock based incentive plan shares, net of forfeitures				43	1			44
Tax benefits from dividends on unvested stock based incentive plan shares				1				1
Tax effect from vesting of stock based incentive plan shares				(20)				(20)
Stock option expense				23				23
Preferred stock dividends					(271)			(271)
Balance at September 30, 2009	$ 7,010	$ 47	$ 217	$ 27,502	$ (6,738)	$ 609	$ (3,245)	$ 25,402

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30, 2010	2009
Cash flows from operating activities	$ 2,533	$ (955)
Cash flows from investing activities		
Available-for-sale securities:		
Sales	13,633	
Maturities, prepayments and calls	4,291	4,872
Purchases	(26,484)	(3,698)
Loan originations and payments, net	8,853	(2,518)
Loans purchased		(2,231)
Proceeds from sale of portfolio loans	10,074	
Proceeds from redemption of FHLB stock		167
Additions to premises and equipment	(49)	(30)
Proceeds from the sale of premises and equipment		1
Proceeds from the sale of foreclosed assets		28
Net cash from investing activities	10,318	(3,409)
Cash flows from financing activities		
Net change in deposits	26,595	8,220
Net change in short-term borrowings from the FHLB and other debt	(2,065)	(5,850)
Proceeds from long-term FHLB advances and other debt		17,942
Repayments on long-term FHLB advances and other debt	(6,000)	(10,200)
Net change in advances by borrowers for taxes and insurance	(68)	(56)
Cash dividends paid on common stock		(205)
Cash dividends paid on preferred stock	(271)	(251)
Costs associated with issuance of preferred stock		(13)
Net cash from financing activities	18,191	9,587
Net change in cash and cash equivalents	31,042	5,223
Beginning cash and cash equivalents	2,973	4,177
Ending cash and cash equivalents	$ 34,015	$ 9,400
Supplemental cash flow information:		
Interest paid	$ 3,167	$ 4,691

Supplemental noncash disclosures:				
Transfers from loans to repossessed assets	$	2,348	$	174
Loans issued to finance the sale of repossessed assets				162
Loans transferred from held for sale to portfolio		91		1,852

See accompanying notes to consolidated financial statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation and its wholly owned subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC, together referred to as the Company. The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and in compliance with U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles 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, 2010 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company s latest Annual Report to Stockholders and Form 10-K. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company s 2009 Annual Report that was filed as Exhibit 13.1 to the Company s Form 10-K for the year ended December 31, 2009. The Company has consistently followed those policies in preparing this Form 10-Q.

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

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

The factors used in the loss per common share computation follow.

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Basic				
Net loss	$ (232)	$ (6,688)	$ (5,880)	$ (7,696)
Less: Preferred dividends and accretion of discount on preferred stock	(103)	(102)	(307)	(305)
Net loss allocated to unvested share-based payment awards	2	15	17	24
Net loss allocated to common stockholders	$ (333)	$ (6,775)	(6,170)	$ (7,977)
Weighted average common shares outstanding	4,092,908	4,090,299	4,094,698	4,087,556
Basic loss per common share	$ (0.08)	$ (1.66)	$ (1.51)	$ (1.95)

Diluted								
Net loss allocated to common stockholders	$	(333)	$	(6,775)	$	(6,170)	$	(7,977)
Weighted average common shares outstanding for basic loss per common share		4,092,908		4,090,299		4,094,698		4,087,556
Add: Dilutive effects of assumed exercises of stock options								
Add: Dilutive effects of assumed exercises of stock warrant								
Average shares and dilutive potential common shares		4,092,908		4,090,299		4,094,698		4,087,556
Diluted loss per common share	$	(0.08)	$	(1.66)	$	(1.51)	$	(1.95)

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Stock options	231,702	314,011	255,133	347,505
Stock warrants	336,568	336,568	336,568	336,568

Adoption of New Accounting Standards:

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166*, Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (Accounting Standards Codification (ASC) 810). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special-purpose entity. ASC 810 must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. ASC 810 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of ASC 810 were also amended and apply to transfers that occurred both before and after the effective date of ASC 810. The adoption of ASC 810 did not have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. SFAS No. 167 also requires additional disclosures about an enterprise s involvement in variable interest entities. SFAS No. 167 will be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of SFAS No. 167 did not have an impact on the Company s consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 to Fair Value Measurements and Disclosures (ASC 820), *Improving Disclosures About Fair Value Measurements.* This ASU added new disclosures about transfers in and out of Level 1 and 2 fair value measurements, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures for ASC 820 were effective for interim and annual reporting periods beginning after December 15, 2009. Adoption of these disclosure provisions of the ASU had no impact on the Company s consolidated financial statements. This ASU also requires disclosures for Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number, as currently permitted. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of these disclosure provisions of the ASU did not have an impact on the Company s consolidated financial statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effect of newly issued but not yet effective Accounting Standards

In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20 to Receivables (ASC 310) *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU adds new disclosures designed to enhance the transparency of an entity s allowance for loan and lease losses (ALLL), and the credit quality of its financing receivables, and to increase the understanding of an entity s credit risk exposure and adequacy of the ALLL. The required disclosures will include the nature of the credit risk inherent in the loan portfolio, how the risk is analyzed and assessed to determine the ALLL, and the changes and reasons for those changes in the ALLL. These disclosures are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of these disclosure provisions of the ASU is not expected to have a material impact on the Company s consolidated financial statements.

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

NOTE 2 SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at September 30, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss) as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2010				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 2,032	$ 222	$	$ 2,254
Collateralized mortgage obligations	26,954	321	28	27,247
Total	$ 28,986	$ 543	$ 28	$ 29,501

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2009				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 5,171	$ 390	$	$ 5,561
Collateralized mortgage obligations	13,551	479		14,030
Collateralized mortgage obligations issued by private issuers	1,635	15		1,650
Total	$ 20,357	$ 884	$	$ 21,241

The proceeds from sales and calls of securities and the associated gains in the three and nine months ended September 30, 2010 and 2009 are listed below:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Proceeds	$ 4,602	$	$ 13,633	$
Gross gains	228		468	
Gross losses				

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

NOTE 2 SECURITIES (continued)

At September 30, 2010 and December 31, 2009, there were no debt securities contractually due at a single maturity date. The amortized cost and fair value of mortgage-backed securities and collateralized mortgage obligations which do not have a single maturity date, totaled $28,986 and $29,501 at September 30, 2010, and $20,357 and $21,241 at December 31, 2009.

Fair value of securities pledged was as follows:

	September 30, 2010	December 31, 2009
Pledged as collateral for:		
FHLB advances	$ 11,519	$ 11,045
Public deposits	5,969	4,038
Customer repurchase agreements	2,781	3,088
Interest-rate swaps	1,586	1,010
Total	$ 21,855	$ 19,181

At September 30, 2010 and December 31, 2009, 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, 2010 aggregated by major security type and length of time in a continuous unrealized loss position. There were no securities with unrealized losses at December 31, 2009.

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored agencies and entities:						
Collateralized mortgage obligations	$ 4,522	$ 28	$	$	$ 4,522	$ 28
Total temporarily impaired	$ 4,522	$ 28	$	$	$ 4,522	$ 28

In determining other than temporary impairments for debt securities, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Unrealized losses have not been recognized into income because the unrealized losses, which are related to five Ginnie Mae (GNMA) collateralized mortgage obligations, carry the full faith and credit guarantee of the U.S. government, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

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

NOTE 3 LOANS

	September 30, 2010	December 31, 2009
Commercial	$ 42,814	$ 42,769
Real estate:		
Single-family residential	26,062	29,461
Multi-family residential	35,344	37,679
Commercial	84,048	96,443
Construction	5,824	5,791
Consumer	18,674	26,052
Subtotal	212,766	238,195
Less: Allowance for loan losses (ALLL)	(10,057)	(7,090)
Loans, net	$ 202,709	$ 231,105

Construction loans include $1,941 and $1,053 in single-family residential loans, and $3,883 and $4,738 in commercial real estate loans, respectively, at September 30, 2010 and December 31, 2009.

Activity in the ALLL was as follows:

	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Beginning balance	$ 10,074	$ 3,996	$ 7,090	$ 3,119
Provision for loan losses	617	4,776	7,303	6,683
Reclassification of allowance for losses on loan-related commitments (1)		(51)		(51)
Loans charged-off	(702)	(4,144)	(4,515)	(5,180)
Recoveries	68	42	179	48
Ending balance	$ 10,057	$ 4,619	$ 10,057	$ 4,619

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

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

NOTE 3 LOANS (continued)

Individually impaired loans were as follows.

	September 30, 2010	December 31, 2009
Period-end loans with no allocated allowance for loan losses	$ 2,842	$ 6,964
Period-end loans with allocated allowance for loan losses	8,429	6,734
Total	$ 11,271	$ 13,698
Amount of the allowance for loan losses allocated to individually impaired loans	$ 2,980	$ 2,033

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Average of individually impaired loans during the period	$ 11,342	$ 7,785	$ 11,822	$ 5,195
Interest income recognized during impairment	10		25	
Cash-basis interest income recognized				

Nonaccrual loans, foreclosed assets and loans past due over 90 days still on accrual were as follows:

	September 30, 2010	December 31, 2009
Loans past due over 90 days still on accrual	$	$ 14
Nonaccrual loans:		
Commercial	$ 1,041	$ 217
Single-family residential real estate	392	426
Multi-family residential real estate	4,123	4,406
Commercial real estate	4,906	6,864
Home equity lines of credit	193	1,307
Other consumer	21	
Total nonaccrual loans	$ 10,676	$ 13,220
Foreclosed assets:		
Commercial real estate	2,348	
Total nonperforming assets	$ 13,024	$ 13,234

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. Foreclosed assets include a single commercial real estate property.

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

NOTE 3 LOANS (continued)

Nonaccrual loans include loans that were modified and identified as troubled debt restructurings, where concessions had been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate, payment extensions, principal forgiveness, and other actions intended to maximize collection. Nonaccruing troubled debt restructurings were as follows:

	September 30, 2010	December 31, 2009
Commercial	$ 177	$ 217
Single-family residential real estate	216	261
Multi-family residential real estate		
Commercial real estate		854
Home equity lines of credit		496
Total	$ 393	$ 1,828

The Company allocated $10 and $511 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of September 30, 2010 and December 31, 2009.

Nonaccrual loans at September 30, 2010 and December 31, 2009, do not include $845 and $1,310, respectively, in troubled debt restructurings where customers have established a sustained period of repayment performance, generally six months, loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in impaired loan totals.

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NOTE 4 FAIR VALUE

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

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

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

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

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

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

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

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

Impaired loans: The fair value of impaired loans with specific allocations of the allowance for loan losses 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.

Foreclosed assets: Nonrecurring adjustments to properties classified as foreclosed assets are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

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NOTE 4 FAIR VALUE (continued)

Assets and Liabilities Measured on a Recurring Basis

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

	Fair Value Measurements at September 30, 2010 Using Significant Other Observable Inputs (Level 2)	
Assets:		
Securities available for sale:		
Issued by U.S. government-sponsored entities and agencies:		
Mortgage-backed securities residential	$	2,254
Collateralized mortgage obligations		27,247
Total securities available for sale	$	29,501
Yield maintenance provisions (embedded derivatives)	$	1,079
Liabilities:		
Interest-rate swaps	$	1,079

	Fair Value Measurements at December 31, 2009 Using Significant Other Observable Inputs (Level 2)	
Assets:		
Securities available for sale:		
Issued by U.S. government-sponsored entities and agencies:		
Mortgage-backed securities residential	$	5,561
Collateralized mortgage obligations		14,030
Collateralized mortgage obligations issued by private issuers		1,650
Total securities available for sale	$	21,241
Yield maintenance provisions (embedded derivatives)	$	480

Liabilities:		
Interest-rate swaps	$	480

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NOTE 4 FAIR VALUE (continued)

Assets Measured on a Non-Recurring Basis

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

	Fair Value Measurements at September 30, 2010 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 28	$
Impaired loans		5,499

	Fair Value Measurements at December 31, 2009 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 16	$
Impaired loans		6,757

Impaired loan servicing rights, which are carried at fair value, were carried at $28, which was made up of the amortized cost of $34, net of a valuation allowance of $6 at September 30, 2010. At December 31, 2009, impaired loan servicing rights were carried at $16, which was made up of the amortized cost of $20, net of a valuation allowance of $4. There was a $1 charge against earnings with respect to servicing rights for the three months ended September 30, 2010, and a $3 charge against earnings for the nine months ended September 30, 2010. There was a $1 increase in earnings with respect to servicing rights for the three and nine months ended September 30, 2009.

Impaired loans carried at the fair value of the collateral for collateral dependent loans, had an unpaid principal balance of $8,469, with a valuation allowance of $2,969, resulting in a $171 increase in the valuation allowance for the quarter ended September 30, 2010, and an increase in the valuation allowance of $936 for the nine months ended September 30, 2010. Impaired loans carried at the fair value of collateral had an unpaid principal balance of $8,790 with a valuation allowance of $2,033 at December 31, 2009. For the quarter ended September 30, 2009 there was no additional provision for loan losses recorded for impairment charges, and for the nine months ended September 30, 2009 an additional provision of $819 was recorded for impairment charges.

During the three and nine months ended September 30, 2010, the Company did not have any significant transfers of assets or liabilities between those measured using Level 1 or 2 inputs. The Company recognizes transfers of assets and liabilities between Level 1 and 2 inputs based on the information relating to those assets and liabilities at the end of the reporting period.

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NOTE 4 FAIR VALUE (continued)

The carrying amounts and estimated fair values of financial instruments at September 30, 2010 and December 31, 2009 are as follows: