

OptimumBank Holdings, Inc.  
Form 10-Q  
November 14, 2012

---

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 September 30, 2012  
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 000-50755  
(State or other jurisdiction of incorporation or (IRS Employer Identification No.)  
organization)

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308  
(Address of principal executive offices)

954-776-2332

(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

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

(§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: 30,900,833 shares of Common Stock, \$.01 par value, issued and outstanding as of November 13, 2012

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	Page
<u>Condensed Consolidated Balance Sheets - September 30, 2012 (unaudited) and December 31, 2011</u>	2
<u>Condensed Consolidated Statements of Operations - Three and Nine Months ended September 30, 2012 and 2011 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Comprehensive Loss - Three and Nine Months ended September 30, 2012 and 2011 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Stockholders' Equity (Deficit) - Nine Months ended September 30, 2012 and 2011 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows - Nine Months ended September 30, 2012 and 2011 (unaudited)</u>	6-7
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8-28
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29-37
<u>Item 4. Controls and Procedures</u>	38
<u>PART II. OTHER INFORMATION</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
<u>Item 6. Exhibits</u>	39
<u>SIGNATURES</u>	40

## 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	September 30, 2012 (Unaudited)	December 31, 2011
Cash and due from banks	\$ 1,959	\$ 1,101
Interest-bearing deposits with banks	3,688	5,123
Federal funds sold	21,720	16,552
<b>Total cash and cash equivalents</b>	<b>27,367</b>	<b>22,776</b>
Securities available for sale	21,588	28,907
Loans, net of allowance for loan losses of \$1,936 and \$2,349	85,451	89,217
Federal Home Loan Bank stock	1,478	2,159
Premises and equipment, net	2,859	2,691
Foreclosed real estate, net	10,444	7,646
Accrued interest receivable	477	499
Other assets	330	577
<b>Total assets</b>	<b>\$ 149,994</b>	<b>\$ 154,472</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities:</b>		
Noninterest-bearing demand deposits	1,309	515
Savings, NOW and money-market deposits	34,573	35,538
Time deposits	69,644	71,842
<b>Total deposits</b>	<b>105,526</b>	<b>107,895</b>
Federal Home Loan Bank advances	27,700	31,700
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	1,029	567
Official checks	320	1,113
Other liabilities	1,397	1,256
<b>Total liabilities</b>	<b>141,127</b>	<b>147,686</b>
<b>Stockholders' equity:</b>		

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding	0	0
Common stock, \$.01 par value; 50,000,000 shares authorized, 30,900,833 and 22,411,108 shares issued and outstanding in 2012 and 2011	309	224
Additional paid-in capital	30,823	27,491
Accumulated deficit	(22,368 )	(19,991 )
Accumulated other comprehensive income (loss)	103	(938 )
<b>Total stockholders' equity</b>	<b>8,867</b>	<b>6,786</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 149,994</b>	<b>\$ 154,472</b>

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Loans	\$ 1,025	\$ 1,121	\$ 3,002	\$ 3,607
Securities	245	378	819	1,407
Other	22	17	60	46
<b>Total interest income</b>	<b>1,292</b>	<b>1,516</b>	<b>3,881</b>	<b>5,060</b>
Interest expense:				
Deposits	272	441	848	1,489
Borrowings	359	389	1,136	1,153
<b>Total interest expense</b>	<b>631</b>	<b>830</b>	<b>1,984</b>	<b>2,642</b>
<b>Net interest income</b>	<b>661</b>	<b>686</b>	<b>1,897</b>	<b>2,418</b>
<b>Provision (credit) for loan losses</b>	<b>197</b>	<b>(243 )</b>	<b>378</b>	<b>652</b>
<b>Net interest income after provision (credit) for loan losses</b>	<b>464</b>	<b>929</b>	<b>1,519</b>	<b>1,766</b>
Noninterest income:				
Service charges and fees	9	9	19	26
Gain on sale of securities	0	0	0	153
Other	1	1	179	53
<b>Total noninterest income</b>	<b>10</b>	<b>10</b>	<b>198</b>	<b>232</b>
Noninterest expenses:				
Salaries and employee benefits	465	444	1,301	1,380
Occupancy and equipment	133	132	376	399
Data processing	47	45	161	147
Professional fees	283	417	810	1,267
Insurance	68	99	208	326
Foreclosed real estate	192	81	329	1,063
Regulatory assessment	92	163	215	545
Other	118	121	490	561
<b>Total noninterest expenses</b>	<b>1,398</b>	<b>1,502</b>	<b>3,890</b>	<b>5,688</b>

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Other-than-temporary impairment on securities:

Total other-than-temporary impairment losses	101	0	204	0
Portion of losses recognized in other comprehensive income	0	0	0	0
Net impairment loss	101	0	204	0
Net loss	\$ (1,025 )	\$ (563 )	\$ (2,377 )	\$ (3,690 )
Net loss per share:				
Basic	\$ (.04 )	\$ (.69 )	\$ (.09 )	\$ (4.50 )
Diluted	\$ (.04 )	\$ (.69 )	\$ (.09 )	\$ (4.50 )
Dividends per share	\$ 0	\$ 0	\$ 0	\$ 0

See Accompanying Notes to Condensed Consolidated Financial Statements.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)  
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	\$(1,025 )	\$(563 )	\$(2,377 )	\$(3,690 )
Other comprehensive loss-				
Unrealized gains (loss) on securities available for sale-				
Unrealized holding gains (losses) arising during period	603	21	1,041	(854 )
Comprehensive loss	\$(422 )	\$(542 )	\$(1,336 )	\$(4,544 )

See Accompanying Notes to Condensed Consolidated Financial Statements.



## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Stockholders' Equity (Deficit)

Nine Months Ended September 30, 2012 and 2011

(Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Compre- hensive Loss	Total Stockholders' Equity (Deficit)
Balance at December 31, 2010	819,358	\$ 8	19,071	(16,244)	0	2,835
Net loss for the nine months ended September 30, 2011 (unaudited)	0	0	0	(3,690)	0	(3,690)
Net change in unrealized loss on securities available for sale (unaudited)	0	0	0	0	(854)	(854)
Balance at September 30, 2011 (unaudited)	819,358	\$ 8	19,071	(19,934)	(854)	(1,709)
Balance at December 31, 2011	22,411,108	\$ 224	27,491	(19,991)	(938)	6,786
Proceeds from sale of common stock (unaudited)	8,447,500	85	3,290	0	0	3,375
Common stock issued as compensation to directors (unaudited)	42,225	0	42	0	0	42
Net loss for the nine months ended September 30, 2012 (unaudited)	0	0	0	(2,377)	0	(2,377)
	0	0	0	0	1,041	1,041

Net change in  
unrealized loss on  
securities available for  
sale (unaudited)

Balance at September 30, 2012 (unaudited)	30,900,833	\$	309	30,823	(22,368)	103	8,867
----------------------------------------------	------------	----	-----	--------	----------	-----	-------

See Accompanying Notes to Condensed Consolidated Financial Statements.

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (2,377 )	\$ (3,690 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	87	94
Provision for loan losses	378	652
Gain on sale of securities	0	(153 )
Common stock issued as compensation to directors	42	0
Net amortization of fees, premiums and discounts	0	93
Decrease in other assets	247	373
Loss on sale of foreclosed real estate	28	186
Write-down of foreclosed real estate	70	704
Decrease in accrued interest receivable	22	101
Decrease in official checks and other liabilities	(652 )	(79 )
Other-than-temporary impairment of securities available for sale	204	0
Net cash used in operating activities	(1,951 )	(1,719 )
Cash flows from investing activities:		
Purchases of securities held to maturity	0	(5,048 )
Principal repayments and maturity of securities available for sale	8,156	7,688
Proceeds from sale of security available for sale	0	11,028
Net decrease in loans	232	8,492
Purchase of premises and equipment	(255 )	(5 )
Proceeds from sale of foreclosed real estate	317	3,703
Capital improvements on foreclosed real estate	(57 )	0
Redemption of Federal Home Loan Bank stock	681	747
Net cash provided by investing activities	9,074	26,605
Cash flows from financing activities:		
Net decrease in deposits	(2,369 )	(19,014 )
Increase in advance payments by borrowers for taxes and insurance	462	459
Repayment of Federal Home Loan Bank advances	(4,000 )	0
Proceeds from sale of common stock	3,375	0
Net cash used in financing activities	(2,532 )	(18,555 )
Net increase in cash and cash equivalents	4,591	6,331

Cash and cash equivalents at beginning of the period	22,776	14,367
Cash and cash equivalents at end of the period	\$ 27,367	\$ 20,698

(continued)

6

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued  
(In thousands)

	Nine Months Ended September 30,	
	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,898	\$ 2,535
Income taxes	\$ 0	\$ 0
Noncash investing and financing activities:		
Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale	\$ 1,041	\$ 21
Transfer of securities held to maturity to available for sale	\$ 0	\$ 50,534
Loans transferred to foreclosed real estate	\$ 3,156	\$ 8,596

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 state (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 Holdings 1503, LLC, all of which were formed in 2009, OB Real Estate Holdings 1695, LLC, OB Real Estate Holdings 1669, LLC, OB Real Estate Holdings 1645, LLC, OB Real Estate Holdings 1620, LLC, and OB Real Estate Holdings 1565, LLC, all formed in 2010, and OB Real Estate Holdings 1443, LLC, and OB Real Estate Holdings 1596, LLC, OB Real Estate Holdings 1636, LLC, and OB Real Estate Holdings Northwood, LLC, formed in 2011, OB Real Estate Holdings Sillato, LLC, OB Real Estate Holdings 1655, LLC, OB Real Estate Holdings 1704, LLC and OB Real Estate Holdings Rosemary, LLC, formed in 2012. 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 community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. This subsidiary had no activity in 2012 and 2011. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

In the opinion of the 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 September 30, 2012, and the results of operations for the three- and nine-month periods ended September 30, 2012 and 2011, and cash flows for the nine-months periods ended September 30, 2012 and 2011. The results of operations for the three- and nine-months ended September 30, 2012, are not necessarily indicative of the results to be expected for the full year.

Comprehensive Loss. Generally accepted accounting principles generally requires that recognized revenue, expenses, gains and losses be included in net loss. 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, are components of comprehensive loss. The only component of other comprehensive loss is the net change in the unrealized loss on the securities available for sale.

Income Taxes. During the year ended December 31, 2009, the Company assessed its earnings history and trend over the past year and its estimate of future earnings, and determined that it is more likely than not that the deferred tax asset will not be realized in the near term. Accordingly, a valuation allowance was recorded against the net deferred tax asset for the amount not expected to be realized in the future. Based on the available evidence at September 30, 2012, the Company determined that it is still more likely than not that the deferred tax asset will not be realized in the near term.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

Recent Pronouncements. In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-12 (“ASU 2011-12”), Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (“ASU 2011-05”). Stakeholders raised concerns that the new presentation requirements about reclassifications of items out of accumulated other comprehensive income would be difficult for preparers and may add unnecessary complexity to financial statements. In addition, it is difficult for some stakeholders to change systems in time to gather the information for the new presentation requirements by the effective date of Update 2011-05. All other requirements in ASU 2011-05 are not affected by this update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The amendments in ASU 2011-12 are effective on a retrospective basis for public entities for annual periods beginning after December 15, 2011, and interim periods within those years. An entity should provide the disclosures required by ASU 2011-12 retrospectively for all comparative periods presented. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11 (“ASU 2011-11”), Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities. The objective of ASU 2011-11 is to enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with Section 210-20-45 or Section 815-10-45. 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. The amendments in ASU 2011-11 are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by ASU 2011-11 retrospectively for all comparative periods presented. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

Recent Pronouncements, Continued. In June 2011, the FASB issued ASU No. 2011-05 (“ASU 2011-05”), Comprehensive Income (Topic 220), Presentation of Comprehensive Income. The objective of ASU 2011-05 is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To achieve this goal and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the consolidated statement of changes in stockholders’ equity. The amendments in ASU 2011-05 require that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in ASU 2011-05 should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04 (“ASU 2011-04”), Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The objective of ASU 2011-04 is to provide clarification of Topic 820 and, also, to ensure that fair value has the same meaning in U.S. generally accepted accounting principles (“GAAP”) and in international financial reporting standards (“IFRSs”) and that their respective fair value measurement and disclosure requirements are generally the same. Thus, this update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRSs. The amendment is effective for interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. Early application is not permitted. The adoption of this guidance did not have a material effect on the Company’s condensed consolidated financial statements.

(continued)



## 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 September 30, 2012:				
Securities Available for Sale-				
Mortgage-backed securities	\$ 21,485	\$ 375	\$ (272 )	\$ 21,588
At December 31, 2011:				
Securities Available for Sale-				
Mortgage-backed securities	\$ 29,845	\$ 202	\$ (1,140 )	\$ 28,907

In June 2011, the Company transferred securities with a book value of approximately \$50.5 million from the held to maturity category to the available for sale category. The fair value of the securities was \$49.8 million resulting in unrealized losses of approximately \$0.7 million. The net unrealized loss was recorded in accumulated other comprehensive loss. Due to this transfer, the Company will be prohibited from classifying securities as held to maturity for a period of two years.

Securities with gross unrealized losses at September 30, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Over Twelve Months Gross Unrealized Losses	Fair Value
Securities Available for Sale-		
Mortgage-backed securities	\$ 272	\$ 5,132

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

- (2) Securities, Continued. 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 greater than twelve months, 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 proscribed data set of FICO score, geographics, 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. During the three and nine months ended September 30, 2012, the Company recorded other-than-temporary impairment charges totaling \$101,000 and \$204,000, respectively.

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(2) Securities, Continued. The unrealized losses on four 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.

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

	At September 30, 2012	At December 31, 2011
Residential real estate	\$ 32,430	\$ 30,434
Multi-family real estate	4,182	4,109
Commercial real estate	39,221	41,307
Land and construction	7,323	11,783
Commercial	3,959	3,713
Consumer	123	175
Total loans	87,238	91,521
Add (deduct):		
Net deferred loan fees, costs and premiums	149	45
Allowance for loan losses	(1,936 )	(2,349 )
Loans, net	\$ 85,451	\$ 89,217

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	Total
Three Months Ended September 30, 2012:							
Beginning balance	\$ 703	\$ 245	\$ 799	\$ 215	\$ 115	\$ 25	\$ 2,102
Provision (credit) for loan losses	(231 )	15	364	36	12	0	196
Charge-offs	0	(1 )	(346 )	(53 )	0	0	(400 )
Recoveries	17	0	0	17	0	4	38
Ending balance	\$ 489	\$ 259	\$ 817	\$ 215	\$ 127	\$ 29	\$ 1,936

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Nine Months Ended  
September 30, 2012:

Beginning balance	\$ 549	\$ 247	\$ 1,190	\$ 187	\$ 161	\$ 15	\$ 2,349
Provision (credit) for loan losses	70	12	154	170	(33 )	5	378
Charge-offs	(146 )	0	(557 )	(388 )	(1 )	0	(1,092 )
Recoveries	16	0	30	246	0	9	301
Ending balance	\$ 489	\$ 259	\$ 817	\$ 215	\$ 127	\$ 29	\$ 1,936

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

## (3) Loans, Continued.

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Consumer	Total
Three Months Ended						
September 30, 2011:						
Beginning balance	\$ 1,093	\$ 308	\$ 1,400	\$ 197	\$ 77	\$ 3,075
Provision for loan losses	(644 )	135	374	(117 )	9	(243 )
Charge-offs	0	0	(150 )	0	0	(150 )
Recoveries	328	2	0	121	4	455
Ending balance	\$ 777	\$ 445	\$ 1,624	\$ 201	\$ 90	\$ 3,137
Nine Months Ended						
September 30, 2011:						
Beginning balance	\$ 1,285	\$ 282	\$ 1,542	\$ 514	\$ 80	\$ 3,703
Provision (credit) for loan losses	(562 )	158	284	772	0	652
Charge-offs	(308 )	0	(202 )	(1,230 )	0	(1,740 )
Recoveries	362	5	0	145	10	522
Ending balance	\$ 777	\$ 445	\$ 1,624	\$ 201	\$ 90	\$ 3,137

## At September 30, 2012

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Total
Individually evaluated for impairment:							
Recorded investment	\$ 7,628	\$ 0	\$ 13,933	\$ 905	\$ 0	\$ 0	\$ 22,466
Balance in allowance for loan losses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Collectively evaluated for impairment:

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Recorded investment	\$ 24,802	\$ 4,182	\$ 25,288	\$ 6,418	\$ 3,959	\$ 123	\$ 64,772
Balance in allowance for loan losses	\$ 489	\$ 259	\$ 817	\$ 215	\$ 127	\$ 29	\$ 1,936

At December 31, 2011

Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Consumer	Total
-------------------------	--------------------------	------------------------	-----------------------	----------	-------

Individually evaluated for impairment:

Recorded investment	\$ 7,919	\$ 0	\$ 16,716	\$ 7,241	\$ 68	\$ 31,944
Balance in allowance for loan losses	\$ 0	\$ 0	\$ 11	\$ 0	\$ 0	\$ 11

Collectively evaluated for impairment:

Recorded investment	\$ 23,223	\$ 4,109	\$ 27,596	\$ 4,542	\$ 107	\$ 59,577
Balance in allowance for loan losses	\$ 566	\$ 247	\$ 1,323	\$ 187	\$ 15	\$ 2,338

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

- (3) Loans, Continued. The Company has divided the loan portfolio into six portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Company are as follows:

Real Estate Mortgage Loans. Real estate mortgage loans are typically segmented into four categories: Residential real estate, Multi-family real estate, Commercial real estate, and Land and Construction. Residential real estate loans are underwritten in accordance with policies set forth and approved by the Board of Directors (the "Board"), including 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 upon standards set forth in the policies approved by the Company's Board. Such standards include, 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 owner occupied and leased properties. These loans are categorized as construction loans during the construction period, later converting to commercial or residential 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 residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued.

Commercial Loans. 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 Loans. Consumer loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. Also offered are 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. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(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)	Substandard	Doubtful	Loss	Total
At September 30, 2012:						
Residential real estate:						
Closed-end first mortgages	\$21,678	\$2,919	\$4,709	\$0	\$0	\$29,306
Closed-end second mortgages	3,124	0	0	0	0	3,124
Total residential real estate	24,802	2,919	4,709	0	0	32,430
Multi-family real estate	4,182	0	0	0	0	4,182
Commercial real estate:						
Owner-occupied	9,949	1,979	78	0	0	12,006
Non-owner-occupied	12,235	1,125	13,855	0	0	27,215
Total commercial real estate	22,184	3,104	13,933	0	0	39,221
Land and construction	6,369	49	905	0	0	7,323
Commercial	3,959	0	0	0	0	3,959
Consumer	123	0	0	0	0	123
Total	\$61,619	\$6,072	\$19,547	\$0	\$0	\$87,238
At December 31, 2011:						
Residential real estate:						
Closed-end first mortgages	\$18,588	\$3,686	\$5,001	\$0	\$0	\$27,275
Closed-end second mortgages	3,159	0	0	0	0	3,159
Total residential real estate	21,747	3,686	5,001	0	0	30,434
Multi-family real estate	4,109	0	0	0	0	4,109
Commercial real estate:						
Owner-occupied	10,132	2,012	369	0	0	12,513
Non-owner-occupied	10,822	2,764	15,208	0	0	28,794

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Total commercial real estate	20,954	4,776	15,577	0	0	41,307
Land and construction	4,493	49	7,241	0	0	11,783
Commercial	3,713	0	0	0	0	3,713
Consumer	107	68	0	0	0	175
Total	\$55,123	\$8,579	\$27,819	\$0	\$0	\$91,521

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued. Internally assigned loan grades are defined as follows:

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. 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 Doubtful.

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			Total Past Due	Current	Nonaccrual Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due				
At September 30, 2012:							
Residential real estate:							
Closed-end first mortgages	\$0	\$0	\$0	\$0	\$24,597	\$4,709	\$29,306
Closed-end second mortgages	0	0	0	0	3,124	0	3,124
Subtotal	0	0	0	0	27,721	4,709	32,430
Multi-family real estate	0	0	0	0	4,182	0	4,182
Commercial real estate:							
Owner-occupied	0	0	0	0	11,928	78	12,006
Non-owner-occupied	0	0	0	0	13,360	13,855	27,215
Subtotal	0	0	0	0	25,288	13,933	39,221
Land and construction	0	0	0	0	6,418	905	7,323
Commercial	701	0	0	701	3,258	0	3,959
Consumer	0	0	0	0	123	0	123
Total	\$701	\$0	\$0	\$701	\$66,990	\$19,547	\$87,238
At December 31, 2011:							
Residential real estate:							
Closed-end first mortgages	\$0	\$768	\$0	\$768	\$21,506	\$5,001	\$27,275
Closed-end second mortgages	0	0	0	0	3,159	0	3,159
Subtotal	0	768	0	768	24,665	5,001	30,434
Multi-family real estate	0	0	0	0	4,109	0	4,109
Commercial real estate:							

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Owner-occupied	0	0	0	0	12,144	369	12,513
Non-owner-occupied	0	0	0	0	13,586	15,208	28,794
Subtotal	0	0	0	0	25,730	15,577	41,307
Land and construction	0	0	0	0	4,542	7,241	11,783
Commercial	0	0	0	0	3,713	0	3,713
Consumer	0	0	0	0	175	0	175
Total	\$0	\$768	\$0	\$768	\$62,934	\$27,819	\$91,521

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) Loans, Continued. The following summarizes the amount of impaired loans (in thousands):

	At September 30, 2012			At December 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Residential real estate-						
Closed-end first mortgages	\$ 7,628	\$ 8,079	\$ 0	\$ 7,919	\$ 8,465	\$ 0
Commercial real estate:						
Owner-occupied	78	78	0	369	376	0
Non-owner-occupied	13,855	16,730	0	15,208	17,584	0
Land and construction	905	2,429	0	7,241	11,652	0
Consumer	0	0	0	68	68	0
With an allowance recorded:						
Commercial real estate-						
Non-owner-occupied	0	0	0	1,139	1,139	11
Total:						
Residential real estate-						
Closed-end first mortgages	\$ 7,628	\$ 8,079	\$ 0	\$ 7,919	\$ 8,465	\$ 0
Commercial real estate:						
Owner-occupied	\$ 78	\$ 78	\$ 0	\$ 369	\$ 376	\$ 0
Non-owner-occupied	\$ 13,855	\$ 16,730	\$ 0	\$ 16,347	\$ 18,723	\$ 11
Land and construction	\$ 905	\$ 2,429	\$ 0	\$ 7,241	\$ 11,652	\$ 0
Consumer	\$ 0	\$ 0	\$ 0	\$ 68	\$ 68	\$ 0
<b>Total</b>	<b>\$ 22,466</b>	<b>\$ 27,316</b>	<b>\$ 0</b>	<b>\$ 31,944</b>	<b>\$ 39,284</b>	<b>\$ 11</b>

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows (in thousands):

	Three Months Ended September 30,					
	2012			2011		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate-						
Closed-end first mortgages	\$ 7,688	\$ 52	\$ 102	\$ 11,080	\$ 66	\$ 71
Multi-family real estate	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial real estate:						
Owner-occupied	\$ 78	\$ 0	\$ 0	\$ 296	\$ 0	\$ 0

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Non-owner-occupied	\$ 14,199	\$ 0	\$ 63	\$ 18,404	\$ 10	\$ 92
Land and construction	\$ 2,372	\$ 0	\$ 25	\$ 6,746	\$ 0	\$ 28
Consumer-						
Non-real estate secured	\$ 0	\$ 0	\$ 0	\$ 216	\$ 1	\$ 1
Total	\$ 24,337	\$ 52	\$ 190	\$ 36,742	\$ 77	\$ 192

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

## (3) Loans, Continued.

	Nine Months Ended September 30,					
	Average Recorded Investment	2012 Interest Income Recognized	Interest Income Received	Average Recorded Investment	2011 Interest Income Recognized	Interest Income Received
Residential real estate-						
Closed-end first mortgages	\$ 7,863	\$ 156	\$ 254	\$ 11,686	\$ 174	\$ 211
Multi-family real estate	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial real estate:						
Owner-occupied	\$ 177	\$ 0	\$ 0	\$ 466	\$ 0	\$ 1
Non-owner-occupied	\$ 14,682	\$ 0	\$ 172	\$ 19,009	\$ 95	\$ 303
Land and construction	\$ 4,681	\$ 0	\$ 69	\$ 7,704	\$ 21	\$ 119
Consumer-Non-real estate secured	\$ 0	\$ 0	\$ 0	\$ 224	\$ 5	\$ 5
Total	\$ 27,403	\$ 156	\$ 495	\$ 39,089	\$ 295	\$ 639

No loans have been determined to be restructured as troubled debt restructurings (“TDRs”) during the nine months ended September 30, 2012. The following schedule summarizes TDRs during nine months ended September 30, 2011. There were no loans determined to be restructured as TDR during three months ended September 30, 2011.

	Nine Months Ended September 30, 2011		
	Number of Contracts	Pre- Modification	Post- Modification
Outstanding Recorded Investment			
Troubled Debt Restructurings:			
Real estate mortgage loans:			
Residential real estate:			
Modified interest rate and amortization	1	\$ 1,289	\$ 1,289
Commercial real estate:			
Modified interest rate and amortization	4	6,321	6,321
Land and construction:			
Modified interest rate and amortization	1	2,080	2,080



Total	6	\$ 9,690	\$ 9,690
-------	---	----------	----------

(continued)

21

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3)Loans, Continued. There were no defaults of TDR's during the nine months ended September 30, 2012. The following schedule summarizes troubled debt restructurings that subsequently defaulted during three and nine months ended September 30, 2011.

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled debt restructurings that subsequently defaulted which were restructured during the last twelve months (dollars in thousands):				
Real estate mortgage loans-Land and construction	1	\$ 2,806	1	\$ 2,806

(4)Regulatory Capital. The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at September 30, 2012 of the regulatory capital requirements and the Bank's capital on a percentage basis:

	Bank	Regulatory Requirement
Tier I capital to total average assets	9.21 %	8.00 %
Tier I capital to risk-weighted assets	12.64 %	4.00 %
Total capital to risk-weighted assets	13.90 %	12.00 %

As a result of the Consent Order discussed in Note 8, the Bank is categorized as "adequately capitalized" until the Consent Order is lifted, even though the ratios would otherwise place it in the "well capitalized" category.

(5)Loss Per Share. Basic loss per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Basic and diluted loss per share is the same due to the net loss incurred by the Company. Loss per common share has been computed based on the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Weighted-average number of common shares outstanding used to calculate basic and diluted loss	29,114,906	819,358	26,130,843	819,358

per common share

(continued)

## 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 2,200,000 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. Effective January 1, 2012, the Company adopted a Non-Employee Director Compensation Plan under which bonus shares issuable under the 2011 Plan may be issued as compensation to outside directors. During the nine months ended September 30, 2012, 42,225 shares of stock valued at approximately \$42,000 have been issued under the 2011 Plan and Non-Employee Director Compensation Plan as compensation to outside directors.

The Company's prior stock option plan terminated on February 27, 2011. At September 30, 2012, no options were available for grant under this plan. Options must be exercised within ten years of the date of grant.

A summary of the activity in the prior plan is as follows:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	50,900	\$ 34.31		
Options forfeited	(11,392 )	32.97		
Outstanding and exercisable at September 30, 2012	39,508	\$ 34.70	2.3 years	\$ 0

(7) Fair Value Measurements. Securities available for sale measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of September 30, 2012- Mortgage-backed securities	\$ 21,588	\$ 0	\$ 21,588	\$ 0
As of December 31, 2011-				

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Mortgage-backed securities	\$ 28,907	\$ 0	\$ 28,907	\$ 0
----------------------------	-----------	------	-----------	------

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) Fair Value Measurements, Continued. There were no transfers of securities between levels of inputs for the nine months ended September 30, 2012 and 2011.

Impaired collateral-dependent loans are carried at fair value when the current collateral value less estimated selling costs is lower than the carrying value of the loan. Those impaired collateral-dependent loans which are measured at fair value on a nonrecurring basis are as follows (in thousands):

At September 30, 2012						Losses Recorded in Operations For the Nine Months Ended September 30, 2012
	Fair Value	Level 1	Level 2	Level 3	Total Losses	
Residential real estate-						
Closed-end first mortgages	\$ 1,294	\$ 0	\$ 0	\$ 1,294	\$ 451	\$ 0
Commercial real estate:						
Non-owner-occupied	8,997	0	0	8,997	2,484	0
Land and construction	905	0	0	905	449	0
	\$ 11,196	\$ 0	\$ 0	\$ 11,196	\$ 3,384	\$ 0

At December 31, 2011						Losses Recorded in Operations For the Year Ended December 31, 2011
	Fair Value	Level 1	Level 2	Level 3	Total Losses	
Residential real estate-						

Edgar Filing: OptimumBank Holdings, Inc. - Form 10-Q

Closed-end first mortgages	\$ 1,591	\$ 0	\$ 0	\$ 1,591	\$ 545	\$ 308
Commercial real estate:						
Owner-occupied	291	0	0	291	8	8
Non-owner-occupied	6,540	0	0	6,540	2,652	150
Land and construction	6,793	0	0	6,793	1,511	834
	\$ 15,215	\$ 0	\$ 0	\$ 15,215	\$ 4,716	\$ 1,300

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(7) Fair Value Measurements, Continued. Foreclosed real estate is recorded at fair value less estimated costs to sell. Foreclosed real estate which is measured at fair value on a nonrecurring basis is as follows (in thousands):

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded During the Period
At September 30, 2012	\$ 10,444	\$ 0	\$ 0	\$ 10,444	\$ 842	\$ 70
At December 31, 2011	\$ 7,646	\$ 0	\$ 0	\$ 7,646	\$ 772	\$ 772

The estimated fair values and fair value measurement method with respect to the Company's financial instruments were as follows (in thousands):

	At September 30, 2012			At December 31, 2011		
	Carrying Amount	Fair Value	Level	Carrying Amount	Fair Value	Level
<b>Financial assets:</b>						
Cash and cash equivalents	\$ 27,367	\$ 27,367	1	\$ 22,776	\$ 22,776	1
Securities available for sale	21,588	21,588	2	28,907	28,907	2
Loans	85,451	85,298	3	89,217	89,069	3
Federal Home Loan Bank stock	1,478	1,478	3	2,159	2,159	3
Accrued interest receivable	477	477	3	499	499	3
<b>Financial liabilities:</b>						
Deposit liabilities	105,526	106,065	1,3	107,895	108,461	1,3
Federal Home Loan Bank advances	27,700	29,884	3	31,700	33,920	3
Junior subordinated debenture	5,155	4,836	3	5,155	4,734	3



Off-balance sheet financial instruments	0	0	3	0	0	3
-----------------------------------------------	---	---	---	---	---	---

Discussion regarding the assumptions used to compute the estimated fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2011.

(continued)

25

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(8) Regulatory Matters - Company. The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). On June 22, 2010, the Company entered into a written agreement with the Federal Reserve Bank of Atlanta ("Reserve Bank") with respect to certain aspects of the operation and management of the Company (the "Written Agreement").

The Written Agreement contains the following principal requirements:

The Board of the Company must take appropriate steps to fully utilize the Company's financial and managerial resources to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with the Consent Order entered into with the OFR and the FDIC and any other supervisory action taken by the Bank's state or federal regulator.

The Company may not declare or pay any dividends without prior Reserve Bank and Federal Reserve approval.

The Company may not, directly or indirectly, take dividends or any other form of payment representing a reduction in capital from the Bank without prior Reserve Bank approval.

The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Federal Reserve.

The Company and its nonbank subsidiary, OptimumBank Holdings Capital Trust I, may not, directly or indirectly, incur, increase, or guarantee any debt or purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

The Company must obtain prior written consent from the Reserve Bank before appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, and must comply with the regulations applicable to indemnification and severance payments.

The Company must provide quarterly progress reports to the Reserve Bank, along with parent company only financial statements.

Management believes the Company is in substantial compliance with the requirements of the Written Agreement.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(9) Regulatory Matters- Bank. Effective April 16, 2010, the Bank consented to the issuance of a Consent Order by the FDIC and the OFR, also effective as of April 16, 2010.

The Consent Order represents an agreement among the Bank, the FDIC and the OFR as to areas of the Bank's operations that warrant improvement and presents a plan for making those improvements. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and the OFR.

The Consent Order contains the following principal requirements:

The Board of the Bank is required to increase its participation in the affairs of the Bank and assume full responsibility for the approval of sound policies and objectives for the supervision of all of the Bank's activities.

The Bank is required to have and retain qualified and appropriately experienced senior management, including a chief executive officer, a chief lending officer and a chief financial officer, who are given the authority to implement the provisions of the Consent Order.

Any proposed changes in the Bank's Board of Directors or senior executive officers are subject to the prior consent of the FDIC and the OFR.

The Bank is required to maintain both a fully funded allowance for loan and lease losses satisfactory to the FDIC and the OFR and a minimum Tier 1 leverage capital ratio of 8% and a total risk-based capital ratio of 12% for as long as the Consent Order remains in effect.

The Bank must undertake over a two-year period a scheduled reduction of the balance of loans classified "substandard" and "doubtful" in its 2009 FDIC examination by at least 75%.

The Bank is required to reduce the volume of its adversely classified private label mortgage backed securities under a plan acceptable to the FDIC and OFR.

The Bank must submit to the FDIC and the OFR for their review and comment a written business/strategic plan covering the overall operation of the Bank.

The Bank must implement a plan to improve earnings, addressing goals and strategies for improving and sustaining earnings, major areas for improvement in the Bank's operating performance, realistic and comprehensive budgets and a budget review process.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(9) Regulatory Matters – Bank, Continued.

The Bank is required to revise, implement and incorporate recommendations of the FDIC and OFR with respect to the following policies or plans:

- o Lending and Collection Policies
- o Investment Policy
- o Liquidity, Contingency Funding and Funds Management Plan
- o Interest Rate Risk Management Policy
- o Internal Loan Review and Grading System;
- o Internal Control Policy; and
- o A plan to reduce concentration in commercial real estate loans;

The Bank's Board of Directors must review the adequacy of the allowance for loan and lease losses and establish a comprehensive policy satisfactory to the FDIC and OFR for determining such adequacy at least quarterly thereafter.

The Bank may not pay any dividends or bonuses without the prior approval of the FDIC.

The Bank may not accept, renew or rollover any brokered deposits except with the prior approval of the FDIC.

The Bank is required to notify the FDIC and OFR prior to undertaking asset growth of 10% or more per annum while the Consent Order remains in effect.

The Bank is required to file quarterly progress reports with the FDIC and the OFR.

Management believes that the Bank is currently in substantial compliance with all the requirements of the Consent Order except for the following requirements:

Scheduled reductions by October 31, 2011, and April 30, 2012, of 60% and 75%, respectively, of loans classified as substandard and doubtful in the 2009 FDIC Examination;

Retention of a qualified chief executive officer; and

Development of a plan to reduce Bank's concentration in commercial real estate loans acceptable to the supervisory authorities.

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans.

(10) Junior Subordinated Debenture. The terms of the debenture agreement allow the Company to defer payments of interest on the debenture by extending the interest payment period at any time during the term of the debenture for up

to twenty consecutive quarterly periods. The Company has elected its right to defer payment of interest on the debenture. Accrued and unpaid interest on the debenture totaled \$446,629 at September 30, 2012.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2011 in the Annual Report on Form 10-K.

Regulatory Enforcement Actions

Bank Consent Order. On April 16, 2010, the Bank consented to the issuance of a Consent Order ("Consent Order") by the FDIC and OFR. The Consent Order covers areas of the Bank's operations that warrant improvement and imposes various requirements and restrictions designed to address these areas, including the requirement to maintain certain minimum capital ratios. A detailed discussion of the Consent Order is contained in Footnote 9 to the condensed consolidated financial statements contained in this report. Management believes that the Bank is currently in substantial compliance with all the requirements of the Consent Order except for the following requirements:

- Scheduled reductions by October 31, 2011, and April 30, 2012, of 60% and 75%, respectively, of loans classified as substandard and doubtful in the 2009 FDIC Examination;
- Retention of a qualified chief executive officer and a chief lending officer; and
- Development of a plan to reduce Bank's concentration in commercial real estate loans acceptable to the supervisory authorities.

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. As of September 30, 2012 scheduled reductions of the aforementioned 2009 classified loans were 59.44%.

Company Written Agreement with Reserve Bank. On June 22, 2010, the Company and the Reserve Bank entered into a Written Agreement with respect to certain aspects of the operation and management of the Company, including, without the prior approval of the Reserve Bank, paying or declaring dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities, incurring, increasing or guaranteeing any debt, purchasing or redeeming any shares of stock, or appointing any new director or senior executive officer. Management believes that the Company is currently in substantial compliance with the requirements of the Written Agreement. A detailed discussion of the Written Agreement is contained in Footnote 8 to the condensed consolidated financial statements contained in this report.

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the control of the Company), including adverse changes in economic, political and market conditions, losses from the Company's lending activities and changes in market conditions, the possible loss of key personnel, the impact of increasing competition, the impact of changes in government regulation, the possibility of liabilities arising from violations of federal and state securities laws and the impact of changes in technology in the banking industries. Although the Company believes that its forward-looking statements are based upon reasonable assumptions regarding its business and future market conditions, there can be no assurances that the Company's actual results will not differ materially from any results expressed or implied by the Company's forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned that any forward-looking statements are not guarantees of future performance.

## Capital Levels

At September 30, 2012, the Bank met or exceeded all of its regulatory capital requirements. The following table summarizes the capital measures of the Bank at September 30, 2012 and December 31, 2011:

	September 30, 2012	December 31, 2011	FDIC Guideline Requirements		
			Adequately-Capitalized	Well-Capitalized	Consent Order
Tier I risk-based capital ratio	12.64	11.22	4.00	6.00	*
Total risk-based capital ratio	13.90	12.48	8.00	10.00	12.00
Leverage ratio	9.21	7.76	4.00	5.00	8.00

\*No additional requirement is established by the Consent Order

## Financial Condition at September 30, 2012 and December 31, 2011

## Overview

Our total assets declined by \$4.5 million to \$150.0 million at September 30, 2012, from \$154.5 million at December 31, 2011, due to a \$7.3 million reduction in securities primarily as a result of repayments and a \$3.8 million reduction in net loans primarily as a result of loan payoffs and transfers to foreclosed real estate, partially offset by a \$4.6 million increase in cash and cash equivalents. Deposits decreased by \$2.4 million to \$105.5 million at September 30, 2012, from \$107.9 million at December 31, 2011, primarily due to a reduction in time deposits. Total stockholders' equity increased by \$2.1 million to \$8.9 million at September 30, 2012 from \$6.8 million at December 31, 2011, due

to the receipt of \$3.4 million in proceeds from the sale of common stock and a \$1.0 million decrease in accumulated other comprehensive loss from a reduction of unrealized losses on securities available for sale, partially offset by a \$2.4 million net loss for the nine month period ended September 30, 2012.



## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

The following table shows selected information for the periods ended or at the dates indicated:

	Nine Months Ended September 30, 2012		Year Ended December 31, 2011		Nine Months Ended September 30, 2011	
Average equity as a percentage of average assets	5.11	%	1.04	%	0.13	%
Equity to total assets at end of period	5.91	%	4.39	%	(1.02)	)%
Return on average assets (1)	(2.08	)%	(2.11	)%	(2.72	)%
Return on average equity (1)	(40.75	)%	(203.97	)%	(129.87	)%
Noninterest expenses to average assets (1)	3.41	%	4.08	%	4.19	%

(1) Annualized for the nine months ended September 30, 2012 and 2011.

Despite the slowing of the decline in real estate values in South Florida, we continue to experience the adverse effects of the prolonged real estate devaluation resulting in significant levels of non-performing loans, foreclosed real estate and loan charge-offs. Management, however, is committed to minimizing further losses in the loan portfolio and reducing our nonperforming assets.

#### Liquidity and Sources of Funds

The Bank's sources of funds include customer deposits, advances from the Federal Home Loan Bank of Atlanta ("FHLB"), principal repayments and sales of investment securities, loan repayments, foreclosed real estate sales, the use of Federal Funds markets, net income, if any, and loans taken out at the Reserve Bank discount window.

Deposits are our primary source of funds. Under the Consent Order, the interest rates that we pay on our market area deposits and our ability to accept brokered deposits are restricted. The restriction on brokered deposits is not expected to alter the Bank's current deposit gathering activities since the Bank has not accepted, renewed or rolled over any brokered deposits since December 2009. With respect to the yield limitations, it is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank. Despite these yield limitations, we believe that we have the ability to adjust rates on our deposits to attract or retain deposits as needed.



OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At September 30, 2012, the Bank had outstanding borrowings of \$27.7 million, against its \$27.7 million in established borrowing capacity with the FHLB. The Bank's borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. In 2010, the Bank obtained an available discount window credit line with the Reserve Bank, currently \$1.9 million. The Reserve Bank line is subject to collateral requirements and must be repaid within 90 days; each advance is subject to prior Reserve Bank consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

The Company, on an unconsolidated basis, typically relies on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on its outstanding trust preferred securities. Under the Consent Order, the Bank is currently unable to pay dividends without prior regulatory approval. In addition, under the Written Agreement, we may not pay interest payments on the trust preferred securities or dividends on our common stock, incur any additional indebtedness at the holding company level, or redeem our common stock without the prior regulatory approval of the Reserve Bank. Since January 2010, we have deferred interest payments on our trust preferred securities.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit and may involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the condensed consolidated balance sheet. The contract amounts of these instruments reflect the extent of the Company's involvement in these financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total committed amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. As of September 30, 2012, the Company had commitments to extend credit totaling \$6.9 million.0-

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

## Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

	Three Months Ended September 30,						
	Average Balance	2012 Interest and Dividends	Average Yield/ Rate		Average Balance	2011 Interest and Dividends	Average Yield/ Rate
	(\$ in thousands)						
<b>Interest-earning assets:</b>							
Loans	\$89,022	\$1,025	4.61	%	\$102,825	\$1,121	4.36
Securities	24,661	245	3.97		38,281	378	3.95
Other (1)	25,838	22	0.34		20,881	17	0.33
<b>Total interest-earning assets/interest income</b>	<b>139,521</b>	<b>1,292</b>	<b>3.70</b>		<b>161,987</b>	<b>1,516</b>	<b>3.74</b>
Cash and due from banks	2,399				27		
Premises and equipment	2,804				2,726		
Other	7,232				5,363		
<b>Total assets</b>	<b>\$151,956</b>				<b>\$170,103</b>		
<b>Interest-bearing liabilities:</b>							
Savings, NOW and money-market deposits	35,837	57	0.64		34,491	62	0.72
Time deposits	70,228	215	1.22		97,033	379	1.56
Borrowings (2)	34,116	359	4.21		36,855	389	4.22
<b>Total interest-bearing liabilities/interest expense</b>	<b>140,181</b>	<b>631</b>	<b>1.80</b>		<b>168,379</b>	<b>830</b>	<b>1.97</b>
Noninterest-bearing demand deposits	1,069				570		
Other liabilities	2,299				2,836		
Stockholders' equity	8,407				(1,682)		

Total liabilities and stockholders' equity	\$ 151,956			\$ 170,103	
Net interest income	\$ 661			\$ 686	
Interest-rate spread (3)		1.90	%	1.77	%
Net interest margin (4)		1.81	%	1.69	%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.00			0.96	

(1) Includes interest-earning deposits with banks, federal funds sold and Federal Home Loan Bank stock dividends.

(2) Includes Federal Home Loan Bank advances, other borrowings and junior subordinated debenture.

(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average interest-earning assets.

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

## Results of Operations

The following table sets forth, for the periods indicated, information regarding (i) the total dollar amount of interest and dividend income of the Company from interest-earning assets and the resultant average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resultant average cost; (iii) net interest income; (iv) interest-rate spread; (v) net interest margin; and (vi) ratio of average interest-earning assets to average interest-bearing liabilities.

	Nine Months Ended September 30,							
	2012	Interest and Dividends		Average Yield/Rate	2011	Interest and Dividends		Average Yield/Rate
	Average Balance				Average Balance			
	(\$ in thousands)							
Interest-earning assets:								
Loans	\$89,607	\$3,002	4.47	%	\$107,650	\$3,607	4.47	%
Securities	26,530	819	4.12		47,309	1,407	3.97	
Other (1)	25,085	60	0.32		17,844	46	0.34	
<b>Total interest-earning assets/interest income</b>	<b>141,222</b>	<b>3,881</b>	<b>3.66</b>		<b>172,803</b>	<b>5,060</b>	<b>3.90</b>	
Cash and due from banks	1,594				349			
Premises and equipment	2,726				2,757			
Other	6,760				5,052			
<b>Total assets</b>	<b>\$152,308</b>				<b>\$180,961</b>			
Interest-bearing liabilities:								
Savings, NOW and money-market deposits	35,336	169	0.64		35,615	215	0.80	
Time deposits	70,089	679	1.29		104,861	1,274	1.62	
Borrowings (2)	35,942	1,136	4.21		36,855	1,153	4.17	
<b>Total interest-bearing liabilities/interest expense</b>	<b>141,367</b>	<b>1,984</b>	<b>1.87</b>		<b>177,331</b>	<b>2,642</b>	<b>1.99</b>	
Noninterest-bearing demand deposits	728				521			
Other liabilities	2,435				2,878			
Stockholders' equity	7,777				231			
	<b>\$152,308</b>				<b>\$180,961</b>			

Total liabilities and  
stockholders' equity

Net interest income	\$1,897		\$2,418	
Interest-rate spread (3)	1.79	%	1.91	%
Net interest margin (4)	1.79	%	1.87	%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.00		0.97	

- 
- (1) Includes interest-bearing deposits in banks, federal funds sold and Federal Home Loan Bank stock dividends.  
(2) Includes Federal Home Loan Bank advances, other borrowings and junior subordinated debenture.  
(3) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.  
(4) Net interest margin is net interest income divided by average interest-earning assets.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Comparison of the Three-Month Periods Ended September 30, 2012 and 2011

**General.** Net loss for the three months ended September 30, 2012, was \$1.0 million or \$(.04) per basic and diluted share compared to a net loss of \$0.6 million or \$(.69) per basic and diluted share for the period ended September 30, 2011. This increase in the Company's net loss was primarily due to a increase in the provision for loan losses.

**Interest Income.** Interest income decreased to \$1.3 million for the three months ended September 30, 2012 from \$1.5 million for the three months ended September 30, 2011. Interest income on loans primarily decreased as a result of a decrease in the average loan portfolio balance for the three months ended September 30, 2012. Interest on securities decreased to \$0.2 million due primarily to a decrease in the average balance of the securities portfolio in 2012.

**Interest Expense.** Interest expense decreased to \$0.6 million for the three months ended September 30, 2012 from \$0.8 million for the three months ended September 30, 2011. Interest expense decreased primarily because of a decrease in the average yield paid during 2012 and a decrease in the average balance of time deposits.

**Provision for Loan Losses.** The provision for the three months ended September 30, 2012, was \$0.2 million compared to \$(0.2) million for the same period in 2011. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio at September 30, 2012. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled \$1.9 million or 2.2% of loans outstanding at September 2012, compared to \$2.3 million, or 2.6% of loans outstanding at December 31, 2011. Management believes the balance in the allowance for loan losses at September 30, 2012 is adequate.

**Noninterest Income.** Total noninterest income remained unchanged at \$10,000 for the three months ended September 30, 2012 and 2011.

**Noninterest Expenses.** Total noninterest expenses decreased to \$1.4 million for the three months ended September 30, 2012 compared to \$1.5 million for the three months ended September 30, 2011 primarily as a result of a reduction in professional fees.



OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Comparison of the Nine-Month Periods Ended September 30, 2012 and 2011

**General.** Net loss for the nine months ended September 30, 2012, was \$2.4 million or \$(.09) per basic and diluted share compared to a net loss of \$3.7 million or \$(4.50) per basic and diluted share for the period ended September 30, 2011. This decrease in the Company's net loss was primarily due to decreases in foreclosed real estate expense, provision for loan losses and professional fees.

**Interest Income.** Interest income decreased to \$3.9 million for the nine months ended September 30, 2012 compared to \$5.1 million for the nine months ended September 30, 2011. Interest income on loans decreased \$600,000 to \$3.0 million due primarily to a decrease in the average loan portfolio balance for the nine months ended September 30, 2012 compared to the same period in 2011. Interest on securities decreased by \$600,000 to \$0.8 million due primarily to a decrease in the average balance of the securities portfolio in 2012.

**Interest Expense.** Interest expense decreased to \$2.0 million for the nine months ended September 30, 2012, from \$2.6 million for the nine months ended September 30, 2011. Interest expense on deposits decreased primarily because of a decrease in the average balance in 2012.

**Provision for Loan Losses.** The provision for the nine months ended September 30, 2012, was \$0.4 million compared to \$0.7 million for the same period in 2011. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the loan portfolio at September 30, 2012. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled \$1.9 million or 2.2% of loans outstanding at September 30, 2012, compared to \$2.3 million, or 2.6% of loans outstanding at December 31, 2011. Management believes the balance in the allowance for loan losses at September 30, 2012 is adequate.

**Noninterest Income.** Total noninterest income decreased to \$198,000 for the nine months ended September 30, 2012, from \$232,000 for the nine months ended September 30, 2011.

**Noninterest Expenses.** Total noninterest expenses decreased to \$3.9 million for the nine months ended September 30, 2012 from \$5.7 million for the nine months ended September 30, 2011, primarily due to a \$0.7 million decrease in foreclosed real estate expense, \$0.5 million decrease in professional fees and a \$0.3 million decrease in regulatory assessment.

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

### Item 4. Controls and Procedures

Under the supervision and with the participation of our President and Chief Financial Officer (our principal executive officer and principal financial officer), we have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on this evaluation, the President and Chief Financial Officer concluded that these disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

#### Private Sale to Accredited Investor

On July 9, 2012, the Company closed the sale of 500,000 shares of its common stock at a price of \$.40 per share to an individual accredited investor. On August 15, 2012, the Company closed the sale of 3,000,000 shares of its common stock at a price of \$.40 per share to an individual accredited investor. On August 17, 2012, the Company closed the sale of 500,000 shares of its common stock at a price of \$.40 per share to an individual accredited investor. The shares sold were not registered under the Securities Act of 1933 (the "Securities Act"), in reliance on the exemption provided by Section 4(2) thereof as a transaction by an issuer not involving a public offering.

#### Non-Employee Director Share Issuances

On September [30], 2012, the Company issued an aggregate of 19,839 shares of its common stock to the Company's non-employee directors under the Company's 2011 Equity Incentive Plan and the Company's Non-Employee Director Compensation Plan (the "Director Compensation Plan") for attendance fees at board meetings of the Company during the second quarter of 2012. Under the Director Compensation Plan, which became effective on January 1, 2012, fees for attendance at board and committee meetings are payable 75% in shares of common stock and 25% in cash on a quarterly basis. The shares were issued at the price of \$0.61, the fair market value of the shares on the date of issuance. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

**Proposed Stock Sale to Gubin.** The Company has previously entered into an Amended and Restated Stock Purchase Agreement dated as of December 5, 2011 with Moishe Gubin, the Chairman of the Board of the Company (the "Stock Purchase Agreement"). Under this agreement, Mr. Gubin agreed to purchase, subject to certain conditions, 6,750,000 newly issued shares of common stock of the Company for a price of \$.40 per share. If this transaction is consummated, the Company will receive gross proceeds of \$2.7 million. These shares are in addition to 1,800,000 shares purchased by Mr. Gubin in the Private Offering, the 250,000 shares purchased by Mr. Gubin from his father-in-law, Mark Orenstein, as well as 4,795 shares issued to Mr. Gubin in 2012 as nonemployee directors' fees. On October 17, 2012, the Company and Mr. Gubin entered into the First Amendment to Amended and Restated Stock Purchase Agreement, which provided that: (i) the proposed shares may be purchased by Mr. Gubin in one or more

closings, (ii) the number of shares to be purchased will be reduced to the extent that the Federal Reserve Board and/or the Florida Office of Financial Regulation limit the number of shares that may be purchased by Mr. Gubin, and (iii) the outside closing date was extended until January 31, 2013.

Item 6. Exhibits

The exhibits contained in the Exhibit Index following the signature page are filed with this report.

37

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OPTIMUMBANK HOLDINGS, INC.  
(Registrant)

Date: November 14 , 2012

By: /s/ Richard L. Browdy  
Richard L. Browdy  
President and Chief Financial  
Officer  
(Principal Executive Officer and  
Principal  
Financial Officer)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 30, 2012)
4.1	Bylaws (incorporated by reference from Current Report on Form 8-K filed with the SEC on May 11, 2004)
4.2	Form of stock certificate (incorporated by reference from Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004)
4.3	Form of Registration Rights Agreement between OptimumBank Holdings, Inc. and Investors (incorporated by reference from Current Report on Form 8-K filed with the SEC on October 31, 2011)
4.4	The Company has outstanding certain long-term debt. None of such debt exceeds ten percent of the Company's total assets; therefore, copies of the constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the SEC upon request.
10.1	OptimumBank Holdings, Inc. Non-Employee Director Compensation Plan (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 30, 2012)
10.2	Amended and Restated Stock Purchase Agreement, dated as of December 5 2011, between OptimumBank Holdings, Inc. and Moishe Gubin (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 30, 2012)
10.3	First Amendment dated June 29, 2012 to Amended and Restated Stock Purchase Agreement between OptimumBank Holdings, Inc. and Moishe Gubin dated December 5, 2011 (incorporated by reference from Current Report on Form 8-K filed with the SEC on July 6, 2012)
10.4	Second First Amendment dated October 25, 2012 to Amended and Restated Stock Purchase Agreement between OptimumBank Holdings, Inc. and Moishe Gubin dated December 5, 2011
31.1	<u>Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act</u>
32.1	<u>Certification of Principal Executive and Principal Financial Officer under 18 U.S.C. Section 1350</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document