

OptimumBank Holdings, Inc.
Form 10-Q
May 11, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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)

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Florida **000-50755**
(State or other jurisdiction of **(IRS Employer**
incorporation or organization) **Identification No.)**
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 (§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: 26,549,897 shares of Common Stock, \$.01 par value, issued and outstanding as of May 10, 2012

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Condensed Consolidated Balance Sheets****(Dollars in thousands, except per share amounts)**

	March 31, 2012	December 31, 2011 (Unaudited)
Assets		
Cash and due from banks	\$ 2,270	\$ 1,101
Interest-bearing deposits with banks	6,189	5,123
Federal funds sold	15,632	16,552
Total cash and cash equivalents	24,091	22,776
Securities held to maturity (fair value of \$100)	100	100
Securities available for sale	26,946	28,907
Loans, net of allowance for loan losses of \$1,975 and \$2,349	88,254	89,217
Federal Home Loan Bank stock	2,159	2,159
Premises and equipment, net	2,673	2,691
Foreclosed real estate, net	7,643	7,646
Accrued interest receivable	495	499
Other assets	577	477
Total assets	\$ 152,938	\$ 154,472
Liabilities and Stockholders Equity		
Liabilities:		
Noninterest-bearing demand deposits	488	515
Savings, NOW and money-market deposits	34,688	35,538
Time deposits	70,357	71,842
Total deposits	105,533	107,895
Federal Home Loan Bank advances	31,700	31,700
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	509	567
Official checks	457	1,113
Other liabilities	1,410	1,256
Total liabilities	144,764	147,686
Stockholders equity:		
Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding	0	0
	265	224

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Common stock, \$.01 par value; 50,000,000 shares authorized, 26,487,397 and 22,411,108 shares issued and outstanding in 2012 and 2011		
Additional paid-in capital	29,093	27,491
Accumulated deficit	(20,573)	(19,991)
Accumulated other comprehensive loss	(611)	(938)
Total stockholders' equity	8,174	6,786
Total liabilities and stockholders' equity	\$ 152,938	\$ 154,472

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Operations (Unaudited)****(in thousands, except per share amounts)**

	Three Months Ended March 31,	
	2012	2011
Interest income:		
Loans	\$ 995	\$ 1,289
Securities	298	529
Other	16	15
Total interest income	1,309	1,833
Interest expense:		
Deposits	291	550
Borrowings	389	380
Total interest expense	680	930
Net interest income	629	903
Provision for loan losses	27	34
Net interest income after provision for loan losses	602	869
Noninterest income:		
Service charges and fees	3	10
Other	1	6
Total noninterest income	4	16
Noninterest expenses:		
Salaries and employee benefits	410	476
Professional fees	239	390
Occupancy and equipment	119	133
Data processing	50	52
Insurance	70	114
Foreclosed real estate expenses	68	391
Regulatory assessment	44	221
Other	188	265
Total noninterest expenses	1,188	2,042
Net loss	\$ (582)	\$ (1,157)

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Net loss per share:			
Basic	\$ (.03)	\$ (1.41)	
Diluted	\$ (.03)	\$ (1.41)	
Dividends per share	\$ 0	\$ 0	

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Comprehensive Loss (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2012	2011
Net loss	\$ (582)	\$ (1,157)
Other comprehensive loss-		
Unrealized gains on securities available for sale-		
Unrealized holding gains arising during period	327	0
Comprehensive loss	\$ (255)	\$ (1,157)

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Stockholders Equity****Three Months Ended March 31, 2012 and 2011****(Dollars in thousands)**

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount				
Balance at December 31, 2010	819,358	\$ 8	\$ 19,071	\$ (16,244)	\$ 0	\$ 2,835
Net loss for the three months ended March 31, 2011 (unaudited)	0	0	0	(1,157)	0	(1,157)
Balance at March 31, 2011 (unaudited)	819,358	\$ 8	\$ 19,071	\$ (17,401)	\$ 0	\$ 1,678
Balance at December 31, 2011	22,411,108	\$ 224	\$ 27,491	\$ (19,991)	\$ (938)	\$ 6,786
Net loss for the three months ended March 31, 2012 (unaudited)	0	0	0	(582)	0	(582)
Net change in unrealized loss on securities available for sale (unaudited)	0	0	0	0	327	327
Proceeds from sale of common stock (unaudited)	4,076,289	41	1,602	0	0	1,643
Balance at March 31, 2012 (unaudited)	26,487,397	\$ 265	\$ 29,093	\$ (20,573)	\$ (611)	\$ 8,174

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Cash Flows (Unaudited)****(In thousands)**

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (582)	\$ (1,157)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	26	33
Provision for loan losses	27	34
Net amortization of fees, premiums and discounts	9	(69)
Decrease in accrued interest receivable	4	85
(Increase) decrease in other assets	(100)	207
Loss on sale of foreclosed real estate	0	166
Write-down of foreclosed real estate	25	180
(Decrease) increase in official checks and other liabilities	(502)	508
Net cash used in operating activities	(1,093)	(13)
Cash flows from investing activities:		
Purchases of securities	0	(5,048)
Principal repayments and calls of securities	2,286	3,405
Net decrease in loans	929	2,463
Purchases of premises and equipment	(8)	(4)
Proceeds from sale of foreclosed real estate, net	0	1,643
Capital improvements on foreclosed real estate	(22)	0
Net cash provided by investing activities	3,185	2,459
Cash flows from financing activities:		
Net decrease in deposits	(2,362)	(5,940)
Net (decrease) increase in advanced payments by borrowers for taxes and insurance	(58)	85
Proceeds from sale of common stock	1,643	0
Net cash used in financing activities	(777)	(5,855)
Net increase (decrease) in cash and cash equivalents	1,315	(3,409)
Cash and cash equivalents at beginning of the period	22,776	14,367
Cash and cash equivalents at end of the period	\$ 24,091	\$ 10,958

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Three Months Ended March 31,	
	2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 640	\$ 902
Income taxes	\$ 0	\$ 0
Noncash transactions:		
Change in accumulated other comprehensive loss, net change in unrealized loss on securities available for sale	\$ 327	\$ 0
Loans transferred to foreclosed real estate	\$ 0	\$ 4,957

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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 Holding 1503, LLC, all of which were formed in 2009, OB Real Estate Holdings 1695, OB Real Estate Holdings 1669, OB Real Estate Holdings 1645, OB Real Estate Holdings 1620 and OB Real Estate Holdings 1565, all formed in 2010, and OB Real Estate Holdings 1443 and OB Real Estate Holdings 1616, OB Real Estate Holdings 1617, OB Real Estate Holdings 1710, OB Real Estate Holdings 1596, OB Real Estate Holdings 1636 formed in 2011. 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 March 31, 2012, and the results of operations and cash flows for the three-month periods ended March 31, 2012 and 2011. The results of operations for the three months ended March 31, 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 March 31, 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. Accordingly, the valuation allowance was increased in 2012 to offset the increase in the net deferred tax asset.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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 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 consolidated financial statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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 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 consolidated financial statements.

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At March 31, 2012:				
Securities Available for Sale-				
Mortgage-backed securities	\$ 27,557	\$ 216	\$ (827)	\$ 26,946
Security Held to Maturity-				
State of Israel Bond	\$ 100	\$ 0	\$ 0	\$ 100
At December 31, 2011:				
Securities Available for Sale-				
Mortgage-backed securities	\$ 29,845	\$ 202	\$ (1,140)	\$ 28,907
Security Held to Maturity-				
State of Israel Bond	\$ 100	\$ 0	\$ 0	\$ 100

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 March 31, 2012, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale-				
Mortgage-backed securities	\$ (14)	\$ 535	\$ (813)	\$ 10,019

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

- (2) **Securities, Continued.** The unrealized losses on nine 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 March 31, 2012	At December 31, 2011
Residential real estate	\$ 29,891	\$ 30,434
Multi-family real estate	4,059	4,109
Commercial real estate	41,025	41,307
Land and construction	11,397	11,783
Commercial	3,693	3,713
Consumer	125	175
Total loans	90,190	91,521
Add (deduct):		
Net deferred loan fees, costs and premiums	39	45
Allowance for loan losses	(1,975)	(2,349)
Loans, net	\$ 88,254	\$ 89,217

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

(3) **Loans, Continued.** An analysis of the change in the allowance for loan losses for the three-month periods ended March 31, 2012 and 2011 follows (in thousands):

	March 31, 2012						
	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Total
Beginning balance	\$ 549	\$ 247	\$ 1,190	\$ 187	\$ 161	\$ 15	\$ 2,349
Provision (credit) for loan losses	112	(33)	(307)	294	(44)	5	27
Charge-offs	0	0	(69)	(335)	0	0	(404)
Recoveries	0	0	0	0	0	3	3
Ending balance	\$ 661	\$ 214	\$ 814	\$ 146	\$ 117	\$ 23	\$ 1,975
Individually evaluated for impairment:							
Recorded investment	\$ 8,006	\$ 0	\$ 15,438	\$ 6,877	\$ 0	\$ 0	\$ 30,321
Balance in allowance for loan losses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Collectively evaluated for impairment:							
Recorded investment	\$ 21,885	\$ 4,059	\$ 25,587	\$ 4,520	\$ 3,693	\$ 125	\$ 59,869
Balance in allowance for loan losses	\$ 661	\$ 214	\$ 814	\$ 146	\$ 117	\$ 23	\$ 1,975

	March 31, 2011						
	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Consumer	Total	
Beginning balance	\$ 1,285	\$ 282	\$ 1,542	\$ 514	\$ 80	\$ 3,703	
Provision (credit) for loan losses	27	23	(97)	90	(9)	34	
Charge-offs	0	0	0	(245)	0	(245)	
Recoveries	2	0	0	23	3	28	
Ending balance	\$ 1,314	\$ 305	\$ 1,445	\$ 382	\$ 74	\$ 3,520	
Individually evaluated for impairment:							
Recorded investment	\$ 12,047	\$ 0	\$ 19,488	\$ 9,052	\$ 229	\$ 40,816	
Balance in allowance for loan losses	\$ 0	\$ 0	\$ 11	\$ 199	\$ 0	\$ 210	

Collectively evaluated for impairment:

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Recorded investment	\$ 25,650	\$ 4,186	\$ 33,678	\$ 5,006	\$ 108	\$ 68,628
Balance in allowance for loan losses	\$ 1,314	\$ 305	\$ 1,434	\$ 183	\$ 74	\$ 3,310

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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 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. 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.

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.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(3) *Loans, Continued.*

Commercial Loans. Commercial loans consist of loans to small- and medium-sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans. Further, the collateral securing these loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through our underwriting standards.

(continued)

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****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 March 31, 2012:						
Residential real estate:						
Closed-end first mortgages	\$ 18,737	\$ 2,919	\$ 5,087	\$ 0	\$ 0	\$ 26,743
Closed-end second mortgages	3,148	0	0	0	0	3,148
Total residential real estate	21,885	2,919	5,087	0	0	29,891
Multi-family real estate	4,059	0	0	0	0	4,059
Commercial real estate:						
Owner-occupied	10,073	2,001	369	0	0	12,443
Non-owner-occupied	12,371	1,141	15,070	0	0	28,582
Total commercial real estate	22,444	3,142	15,439	0	0	41,025
Land and construction	4,471	49	6,877	0	0	11,397
Commercial	3,693	0	0	0	0	3,693
Consumer:						
Non-real estate secured	0	68	0	0	0	68
Real estate secured	57	0	0	0	0	57
Total consumer	57	68	0	0	0	125
Total	\$ 56,609	\$ 6,178	\$ 27,403	\$ 0	\$ 0	\$ 90,190

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

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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
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:						
Non-real estate secured	0	68	0	0	0	68
Real estate secured	107	0	0	0	0	107
Total consumer	107	68	0	0	0	175
Total	\$ 55,123	\$ 8,579	\$ 27,819	\$ 0	\$ 0	\$ 91,521

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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.

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****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 March 31, 2012:							
Residential real estate:							
Closed-end first mortgages	\$ 0	\$ 41	\$ 0	\$ 41	\$ 21,615	\$ 5,087	\$ 26,743
Closed-end second mortgages	0	0	0	0	3,148	0	3,148
Subtotal	0	41	0	41	24,763	5,087	29,891
Multi-family real estate	0	0	0	0	4,059	0	4,059
Commercial real estate:							
Owner-occupied	0	0	0	0	12,074	369	12,443
Non-owner-occupied	3,300	0	0	3,300	10,212	15,070	28,582
Subtotal	3,300	0	0	3,300	22,286	15,439	41,025
Land and construction	0	0	0	0	4,520	6,877	11,397
Commercial	0	0	0	0	3,693	0	3,693
Consumer:							
Non-real estate secured	0	0	0	0	68	0	68
Real estate secured	0	0	0	0	57	0	57
Subtotal	0	0	0	0	125	0	125
Total	\$ 3,300	\$ 41	\$ 0	\$ 3,341	\$ 59,446	\$ 27,403	\$ 90,190

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

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Commercial real estate:							
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							
Land and construction	0	0	0	0	4,542	7,241	11,783
Commercial	0	0	0	0	3,713	0	3,713
Consumer:							
Non-real estate secured	0	0	0	0	68	0	68
Real estate secured	0	0	0	0	107	0	107
Subtotal	0	0	0	0	175	0	175
Total	\$ 0	\$ 768	\$ 0	\$ 768	\$ 62,934	\$ 27,819	\$ 91,521

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

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

	At March 31, 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	\$ 8,006	\$ 8,551	\$ 0	\$ 7,919	\$ 8,465	\$ 0
Commercial real estate:						
Owner-occupied	368	376	0	369	376	0
Non-owner-occupied	15,070	17,516	0	15,208	17,584	0
Land and construction	6,877	11,623	0	7,241	11,652	0
Consumer-						
Non-real estate secured	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	\$ 8,006	\$ 8,551	\$ 0	\$ 7,919	\$ 8,465	\$ 0
Commercial real estate:						
Owner-occupied	\$ 368	\$ 376	\$ 0	\$ 369	\$ 376	\$ 0
Non-owner-occupied	\$ 15,070	\$ 17,516	\$ 0	\$ 16,347	\$ 18,723	\$ 11
Land and construction	\$ 6,877	\$ 11,623	\$ 0	\$ 7,241	\$ 11,652	\$ 0
Consumer-						
Non-real estate secured	\$ 0	\$ 0	\$ 0	\$ 68	\$ 68	\$ 0
Total	\$ 30,321	\$ 38,066	\$ 0	\$ 31,944	\$ 39,284	\$ 11

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

	For the Period Ended March 31, 2012			For the Period Ended March 31, 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	\$ 8,011	\$ 52	\$ 68	\$ 11,752	\$ 52	\$ 78
Commercial real estate:						

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Owner-occupied	\$ 369	\$ 0	\$ 0	\$ 751	\$ 0	\$ 1
Non-owner-occupied	\$ 15,199	\$ 0	\$ 51	\$ 19,465	\$ 53	\$ 117
Land and construction	\$ 7,123	\$ 0	\$ 29	\$ 8,080	\$ 21	\$ 56
Consumer- Non-real estate secured	\$ 0	\$ 0	\$ 0	\$ 234	\$ 2	\$ 2
Total	\$ 30,702	\$ 52	\$ 148	\$ 40,282	\$ 128	\$ 254

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (3) **Loans, Continued.** No loans have been determined to be troubled debt restructurings (TDR s) during the three months ended March 31, 2012. In addition there were no defaults of TDR s during the three months ended March 31, 2011 or 2012.

The allowance for loan losses on commercial and consumer loans that have been restructured and are considered TDR s is included in the Company s specific reserve. The specific reserve is determined on a loan by loan basis by either the present value of expected future cash flows discounted at the loan s effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDR s that have subsequently defaulted are considered collateral-dependent.

- (4) **Regulatory Capital.** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at March 31, 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	9.16%	8.00%
Tier I capital to risk-weighted assets	11.94%	4.00%
Total capital to risk-weighted assets	13.20%	12.00%

- (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 March 31,	
	2012	2011
Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share	22,509,296	819,358

- (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 are issued as compensation to outside directors. As of March 31, 2012, 3,789 shares of stock have been issued under the 2011 Plan and Non-Employee Director Compensation Plan as compensation to outside directors.

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Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (6) **Stock-Based Compensation, Continued.** The Company's prior stock option plan terminated on February 27, 2011. At March 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 March 31, 2012	39,508	\$ 34.70	2.8 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 Quoted Prices			
	Fair Value	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2012-				
Mortgage-backed securities	\$ 26,946	\$ 0	\$ 26,946	\$ 0
As of December 31, 2011-				
Mortgage-backed securities	\$ 28,907	\$ 0	\$ 28,907	\$ 0

(continued)

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****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 three months ended March 31, 2012.

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 March 31, 2012				Total	Losses Recorded in Operations For the Three Months Ended March 31, 2012
	Fair Value	Level 1	Level 2	Level 3	Losses	
Residential real estate-						
Closed-end first mortgages	\$ 854	\$ 0	\$ 0	\$ 854	\$ 545	\$ 0
Commercial real estate:				&nb		