CENTRAL FEDERAL CORP
Form 10-K
March 30, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2011

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 0-25045

CENTRAL FEDERAL CORPORATION.

(Exact name of registrant as specified in its charter)

Delaware	**34-1877137**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

2923 Smith Road, Fairlawn, Ohio	**44333**
(Address of Principal Executive Offices)	**(Zip Code)**

(330) 666-7979

(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	Nasdaq® Capital Market
(Title of Class)	**(Name of Exchange on which Registered)**

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act YES ¨ NO x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO x

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of June 30, 2011 was $2.7 million based upon the closing price as reported on the Nasdaq® Capital Market for that date.

As of March 15, 2012, there were 4,128,198 shares of the registrant s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Rule 14a-3(b) Annual Report to Stockholders for its fiscal year ended December 31, 2011, which was filed with the Securities and Exchange Commission (the Commission) on or about March 30, 2012, and its Proxy Statement for the 2012 Annual Meeting of Stockholders to be held on May 17, 2012, which was filed with the Commission on or about March 30, 2012, are incorporated herein by reference into Parts II and III, respectively, of this Form 10-K.

Table of Contents

INDEX

Table of Contents

Forward-Looking Statements

Statements in this Form 10-K and in other communications by the Company that are not statements of historical fact are forward-looking statements which are made in good faith by us. Forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per common share, capital structure and other financial items; (2) plans and objectives of the management or Boards of Directors of Central Federal Corporation (the Holding Company) or CFBank; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as estimate, strategy, may, believe, anticipate, exp predict, will, intend, plan, targeted, and the negative of these terms, or similar expressions, are intended to identify forward-looking statemen but are not the exclusive means of identifying such statements. Various risks and uncertainties may cause actual results to differ materially from those indicated by our forward-looking statements. The following factors could cause such differences:

a continuation of current high unemployment rates and difficult economic conditions or adverse changes in general economic conditions and economic conditions in the markets we serve, any of which may affect, among other things, our level of nonperforming assets, charge-offs, and provision for loan loss expense;

changes in interest rates that may reduce net interest margin and impact funding sources;

our ability to maintain sufficient liquidity to continue to fund our operations;

our ability to reduce our high level of nonperforming assets and operating expenses;

changes in market rates and prices, including real estate values, which may adversely impact the value of financial products including securities, loans and deposits;

the possibility of other-than-temporary impairment of securities held in our securities portfolio;

results of examinations of the Holding Company and CFBank by the regulators, including the possibility that the regulators may, among other things, require CFBank to increase its allowance for loan losses or write-down assets;

our ability to meet the requirements of the Orders, as defined below, in Part 1 Item 1. Business under the section captioned Cease and Desist Orders ;

our ability to generate profits in the future is unlikely without additional capital;

the uncertainties arising from the Holding Company s participation in the Troubled Asset Relief Program (TARP) Capital Purchase Program, including the impact on employee recruitment and retention and other business and practices, and uncertainties concerning the potential redemption by the Holding Company of Central Federal Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series A, (Preferred Stock) issued to the United States Department of the Treasury (U.S. Treasury) under the program, including the timing of, regulatory approvals for, and conditions placed upon, any such redemption;

changes in tax laws, rules and regulations;

various monetary and fiscal policies and regulations, including those determined by the Board of Governors of the Federal Reserve System (FED), the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC);

competition with other local and regional commercial banks, savings banks, credit unions and other non-bank financial institutions;

our ability to grow our core businesses;

technological factors which may affect our operations, pricing, products and services;

unanticipated litigation, claims or assessments; and

management s ability to manage these and other risks.

Table of Contents

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Holding Company, including its subsidiaries, together referred to as the Company, believes it has chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The forward-looking statements included in this report speak only as of the date of the report. We undertake no obligation to publicly release revisions to any forward-looking statements to reflect events or circumstances after the date of such statements, except to the extent required by law.

PART I

Item 1. Business.

General

Central Federal Corporation (the Holding Company), which was formerly known as Grand Central Financial Corp., was organized as a Delaware corporation in September 1998 as the holding company for CFBank in connection with CFBank s conversion from a mutual to stock form of organization. CFBank is a community-oriented savings institution which was originally organized in 1892, and was formerly known as Central Federal Savings and Loan Association of Wellsville and more recently as Central Federal Bank. As used herein, the terms we, us, our and the Company refer to Central Federal Corporation and its subsidiaries, unless the context indicates to the contrary. As a savings and loan holding company, we are subject to regulation by the FED. Central Federal Capital Trust I (the Trust), a wholly owned subsidiary of the Holding Company, was formed in 2003 to raise additional funding for the Company. The Holding Company is not considered the primary beneficiary of this trust (variable interest entity), therefore, the trust is not consolidated in the Company s financial statements, but rather the subordinated debentures are shown as a liability. Ghent Road, Inc., a wholly owned subsidiary of the Holding Company, was formed in 2006 and owns land adjacent to CFBank s Fairlawn, Ohio office. Smith Ghent LLC, a wholly owned subsidiary of the Holding Company, owns the office building and land in Fairlawn which is leased to CFBank. The Holding Company previously was a one-third owner in Smith Ghent LLC and acquired the remaining two-thirds interest on October 6, 2009. Currently, we do not transact material business other than through CFBank. At December 31, 2011, assets totaled $250.9 million and stockholders equity totaled $9.9 million.

CFBank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. Our business model emphasizes personalized service, clients access to decision makers, solution-driven lending and quick execution, efficient use of technology and the convenience of online internet banking, mobile banking, remote deposit, corporate cash management and telephone banking. We attract retail and business deposits from the general public and use the deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans and home equity lines of credit. The majority of our customers are small businesses, small business owners and consumers. Revenues are derived principally from the generation of interest and fees on loans originated and, to a lesser extent, interest and dividends on securities. Our primary sources of funds are retail and business deposit accounts and certificates of deposit, brokered certificates of deposit and, to a lesser extent, principal and interest payments on loans and securities, Federal Home Loan Bank (FHLB) advances, other borrowings and proceeds from the sale of loans. Our principal market area for loans and deposits includes the following Ohio counties: Summit County through our office in Fairlawn, Ohio; Franklin County through our office in Worthington, Ohio; and Columbiana County through our offices in Calcutta and Wellsville, Ohio. We originate commercial and conventional real estate loans and business loans primarily throughout Ohio.

Table of Contents

Cease and Desist Orders

On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the Holding Company Order and the CFBank Order, respectively, and collectively, the Orders) by the Office of Thrift Supervision (OTS), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the FED replaced the OTS as the primary regulator of the Holding Company and the OCC replaced the OTS as the primary regulator of CFBank. The requirements of the Orders will remain in effect until terminated, modified or suspended by regulators. See Note 2 to the Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

The Company announced a registered common stock offering of up to $30.0 million on August 9, 2011. The registered common stock offering consists of a $25.0 million rights offering and a $5.0 million offering to a group of standby purchasers. See Note 2 to our Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information regarding the registered common stock offering.

We have taken such actions as we believe are necessary to comply with all requirements of the Orders which are currently effective and we are continuing to work toward compliance with the provisions of the Orders having future compliance dates. Although we did not comply with the higher capital ratio requirements by the September 30, 2011 required date, based on informal discussions with our regulators and due to the pendency of the stock offering, management does not expect that any additional material restrictions or penalties will be imposed by regulators as a result of not complying with the September 30, 2011 deadline, assuming we are able to raise sufficient capital in the stock offering within a reasonable period of time. Failure to comply with the Orders could result in the initiation of further regulatory enforcement action against us, including the imposition of further operating restrictions. Regulators could also instruct us to seek a merger partner or liquidate CFBank.

The Holding Company and CFBank have incurred, and expect to continue to incur, significant additional regulatory compliance expense in connection with the Orders. It is possible that regulatory compliance expenses related to the Orders could have a material adverse impact on us in the future.

The significant directives contained in the Orders, including higher capital requirements, requirements to reduce the level of our classified and criticized assets, growth and operating restrictions, restrictions on brokered deposits, restrictions on certain types of lending and restrictions on dividend payments may impede our ability to operate our business and to effectively compete in our markets. In addition, the regulators must approve any deviation from our business plan, which could limit our ability to make any changes to our business and could negatively impact the scope and flexibility of our business activities. Certain provisions of the Orders that could have a material negative impact on the financial condition and operating results of CFBank and the Holding Company are as follows:

1. Because the CFBank Order requires CFBank to have 8% core capital and 12% total risk-based capital, CFBank is no longer considered well-capitalized under the prompt corrective action regulations and is deemed adequately capitalized so long as it maintains at least 4% core capital, 4% tier 1 risk-based capital and 8% total risk-based capital. At December 31, 2011, CFBank had 5.39% core capital, 9.02% tier 1 risk-based capital and 10.30% total risk-based capital. If CFBank capital falls below the levels to be considered adequately capitalized, it may be subject to substantially greater regulatory scrutiny, including the imposition of additional restrictions on our operations.

Table of Contents

2. The Holding Company is significantly dependent on dividends from CFBank to provide the liquidity necessary to meet its obligations. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Pursuant to the CFBank Order, CFBank may not declare or pay dividends or make any other capital distributions without receiving prior written regulatory approval. Future dividend payments by CFBank to the Holding Company would be based on future earnings and regulatory approval. The payment of dividends from CFBank to the Holding Company is not likely to be approved by regulators while CFBank is suffering significant losses. As a result of the current level of problem assets, the continuing depressed economy and the longer periods of time necessary to work out problem assets in the current economy, it is unlikely CFBank will be able to pay dividends to the Holding Company. If CFBank is unable to pay dividends, the Holding Company may not have sufficient funds to be able to pay its obligations, which would have a material adverse impact on our financial condition and could result in the Holding Company becoming insolvent without the addition of new capital.

3. Because CFBank is no longer considered to be well-capitalized, it is prohibited from accepting or renewing brokered deposits without FDIC approval and is subject to market rate limitations published by the FDIC when offering deposits to the general public. See the section titled Financial Condition - *Deposits* and the section titled Liquidity and Capital Resources included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information regarding these regulatory restrictions.

Our independent registered public accounting firm in their audit report for fiscal year 2011 has expressed substantial doubt about our ability to continue as a going concern. Continued operations may depend on our ability to comply with the terms of the Orders and the additional capital required to do so may not be available if our stock offering is not successful. Our audited financial statements were prepared under the assumption that we will continue our operations on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. See Note 2 to our consolidated financial statements for a description of going concern considerations and managements s plans.

Market Area and Competition

Our primary market area is a competitive market for financial services and we face competition both in making loans and in attracting deposits. Direct competition comes from a number of financial institutions operating in our market area, many with a statewide or regional presence, and in some cases, a national presence. Many of these financial institutions are significantly larger and have greater financial resources than we do. Competition for loans and deposits comes from savings institutions, mortgage banking companies, commercial banks, credit unions, brokerage firms and insurance companies.

Lending Activities

Loan Portfolio Composition. The loan portfolio consists primarily of commercial, commercial real estate and multi-family mortgage loans and, to a lesser degree, mortgage loans secured by single-family residences and consumer loans. At December 31, 2011, gross loans receivable totaled $157.3 million and decreased $43.2 million, or 21.6%, from $200.5 million at December 31, 2010. Commercial, commercial real estate and multi-family mortgage loans, including related construction loans, totaled $122.9 million and represented 78.2% of the gross loan portfolio at both December 31, 2011 and December 31, 2010, and 76.2% at December 31, 2009. Beginning in June 2010 and continuing in 2011, management slowed new lending to increase our capital ratios and, after receipt of the CFBank Order, to comply with lending restrictions. The percentage of commercial, commercial real estate and multi-family mortgage loans remained unchanged from the prior year primarily due to a decrease in the overall loan portfolio. Commercial, commercial real estate and multi-family mortgage loan balances, including related construction loans, decreased $33.9 million, or 21.6%, during 2011. Portfolio single-family residential mortgage loans, including related construction loans, totaled $18.2 million and represented 11.6% of total gross loans at year-end 2011 compared to 12.8% at year-end 2010 and 2009. The remainder of the portfolio consisted of consumer loans, which totaled $16.1 million, or 10.3% of gross loans receivable at year-end 2011.

Table of Contents

The types of loans originated are subject to federal and state laws and regulations. Interest rates charged on loans are affected by the demand for such loans, the supply of money available for lending purposes and the rates offered by competitors. In turn, these factors are affected by, among other things, economic conditions, fiscal policies of the federal government, monetary policies of the FED and legislative tax policies.

Table of Contents

The following table sets forth the composition of the loan portfolio in dollar amounts and as a percentage of the portfolio at the dates indicated.

	At December 31,									
	2011		2010		2009		2008		2007	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Real estate mortgage loans:										
Single-family	$ 18,214	11.58%	$ 23,273	11.61%	$ 29,578	12.37%	$ 28,737	12.07%	$ 29,569	12.68%
Multi-family	27,163	17.27%	35,308	17.61%	37,788	15.81%	41,541	17.45%	43,673	18.73%
Construction		0.00%	4,919	2.45%	5,811	2.43%	3,068	1.29%	6,164	2.65%
Commercial	69,757	44.35%	80,725	40.26%	96,854	40.51%	97,015	40.76%	90,193	38.68%
Total real estate mortgage loans	115,134	73.20%	144,225	71.93%	170,031	71.12%	170,361	71.57%	169,599	72.74%
Consumer loans:										
Home equity loans	651	0.41%	968	0.48%	1,159	0.48%	633	0.27%	601	0.26%
Home equity lines of credit	14,921	9.49%	16,316	8.14%	19,023	7.96%	19,804	8.31%	18,726	8.03%
Automobile	41	0.03%	98	0.05%	4,943	2.07%	5,151	2.17%	7,962	3.41%
Other	529	0.34%	724	0.36%	1,040	0.43%	1,007	0.42%	960	0.41%
Total consumer loans	16,142	10.27%	18,106	9.03%	26,165	10.94%	26,595	11.17%	28,249	12.11%
Commercial loans	25,994	16.53%	38,194	19.04%	42,897	17.94%	41,087	17.26%	35,311	15.15%
Total loans receivable	157,270	100.00%	200,525	100.00%	239,093	100.00%	238,043	100.00%	233,159	100.00%
Less:										
Allowance for loan losses	(6,110)		(9,758)		(7,090)		(3,119)		(2,684)	
Loans receivable, net	$ 151,160		$ 190,767		$ 232,003		$ 234,924		$ 230,475	

Construction loans include single-family real estate loans of $0, $2,324, $1,056, $180, and $1,434 at December 31, 2011, 2010, 2009, 2008, and 2007, and commercial real estate loans of $0, $2,595, $4,755, $2,888, and $4,730, at December 31, 2011, 2010, 2009, 2008, and 2007. Loan balances for the periods ending December 31, 2011, 2010, 2009 and 2008 are reported at the recorded investment, which includes accrued interest, while loan balances at December 31, 2007 do not include accrued interest.

Table of Contents

Loan Maturity. The following table shows the remaining contractual maturity of the loan portfolio at December 31, 2011. Demand loans and other loans having no stated schedule of repayments or no stated maturity are reported as due within one year. The table does not include potential prepayments or scheduled principal amortization.

	At December 31, 2011			
	Real Estate Mortgage Loans [1]	Consumer Loans	Commercial Loans	Total Loans Receivable
	(Dollars in thousands)			
Amounts due:				
Within one year	$ 12,044	$ 698	$ 11,814	$ 24,556
After one year:				
More than one year to three years	18,228	503	4,062	22,793
More than three years to five years	20,456	112	2,653	23,221
More than five years to 10 years	45,999	236	6,612	52,847
More than 10 years to 15 years	3,299	6,047	828	10,174
More than 15 years	15,108	8,546	25	23,679
Total due after 2012	103,090	15,444	14,180	132,714
Total amount due	$ 115,134	$ 16,142	$ 25,994	$ 157,270

(1) Real estate mortgage loans include single-family, multi-family and commercial real estate loans and construction loans.

The following table sets forth at December 31, 2011, the dollar amount of total loans receivable contractually due after December 31, 2012, and whether such loans have fixed interest rates or adjustable interest rates.

	Due after December 31, 2012		
	Fixed	Adjustable	Total
	(Dollars in thousands)		
Real estate mortgage loans [1]	$ 42,856	$ 60,234	$ 103,090
Consumer loans	859	14,585	15,444
Commercial loans	3,892	10,288	14,180
Total loans	$ 47,607	$ 85,107	$ 132,714

(1) Real estate mortgage loans include single-family, multi-family and commercial real estate loans and construction loans.

Origination of Loans. Lending activities are conducted through our offices. In 2003, we began originating commercial, commercial real estate and multi-family mortgage loans and expanded into business financial services in the Fairlawn and Columbus, Ohio markets.

Table of Contents

CFBank participates in various loan programs offered by the Small Business Administration (SBA) enabling us to provide our customers and small business owners in our markets with access to funding to support their businesses, as well as reduce credit risk associated with these loans. Individual loans include SBA guarantees of up to 90%. SBA loans totaled $5.9 million at December 31, 2011, compared to $6.3 million at December 31, 2010 and $3.0 million at December 31, 2009. We also participate in the State of Ohio s GrowNOW program, which provides small business borrowers with a 3% interest rate reduction on small business loans funded through deposits from the State of Ohio at CFBank. At December 31, 2011, loans outstanding under the GrowNOW program totaled $1.5 million compared to $2.0 million at December 31, 2010 and $2.2 million at December 31, 2009. The GrowNOW lending program is unavailable to CFBank as long as the CFBank Order remains in effect.

Commercial, commercial real estate and multi-family loans are predominantly adjustable rate loans, although we offer both fixed rate and adjustable rate loans. Fixed rates are generally limited to three to five years. CFBank also accommodates borrowers who desire fixed rate loans for longer than three to five years by utilizing interest-rate swaps to protect the related fixed rate loans from changes in value due to changes in interest rates. See Note 20 to the Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information on interest-rate swaps.

A majority of our single-family mortgage loan originations are fixed-rate loans. Current originations of long-term, fixed-rate single-family mortgages are generally sold rather than retained in portfolio in order to minimize investment in long-term, fixed-rate assets that have the potential to expose the Company to long-term interest rate risk. Although we currently expect that most of our long-term, fixed-rate mortgage loan originations will continue to be sold, primarily on a servicing-released basis, a portion of these loans may be retained for portfolio within our interest rate risk and profitability guidelines.

Single-Family Mortgage Lending. A significant lending activity has been the origination of permanent conventional mortgage loans secured by single-family residences located within and outside of our primary market area. Loan originations are obtained from our loan officers and their contacts with the local real estate industry, existing or past customers, members of the local communities, and to a lesser extent through telemarketing and purchased leads. We offer both fixed-rate and adjustable-rate mortgage (ARM) loans with maturities generally up to 30 years, priced competitively with current market rates. We offer several ARM loan programs with terms of up to 30 years and interest rates that adjust with a maximum adjustment limitation of 2.0% per year and a 6.0% lifetime cap. The interest rate adjustments on ARM loans currently offered are indexed to a variety of established indices and these loans do not provide for initial deep discount interest rates. We do not originate option ARM loans or loans with negative amortization.

The volume and types of single-family ARM loan originations are affected by market factors such as the level of interest rates, consumer preferences, competition and the availability of funds. In recent years, demand for single-family ARM loans has been weak due to consumer preference for fixed-rate loans as a result of the low interest rate environment. Consequently, our origination of ARM loans on single-family residential properties has not been significant as compared to our origination of fixed-rate loans.

We currently sell substantially all of the single-family mortgage loans that we originate on a servicing released basis. All single-family mortgage loans sold are underwritten according to Federal Home Loan Mortgage Corporation (Freddie Mac) or Federal National Mortgage Association (Fannie Mae) guidelines, or are underwritten to comply with additional guidelines as may be required by the individual investor. During 2011 we achieved direct endorsed underwriter status, a designation by the Department of Housing and Urban Development that allows us to offer loans insured by the Federal Housing Authority (FHA). We also began offering a reverse mortgage product in 2011. A high volume of residential mortgage originations is a key component for profitability in this part of our business. For the year ended December 31, 2011, single-family mortgage loans originated for sale totaled $36.0 million, and decreased $43.5 million, or 54.7%, compared to $79.5 million in 2010. The decrease in originations was partially due to having six fewer mortgage loan originators in the current year. The number of originators decreased as a result of attrition and termination of originators with low production. Additionally, the First-Time Home Buyer Credit, which was extended for purchases made through April 30, 2010 by The Worker, Homeownership and Business Assistance Act of 2009, positively impacted originations in 2010. The volume of refinance activity, which is very sensitive to market mortgage interest rates, may be a significant factor that impacts the level of residential originations in 2012. If market mortgage rates increase or the housing market deteriorates further, mortgage production, and resultant gains on sales of loans, could decrease.

Table of Contents

At December 31, 2011, portfolio single-family mortgage loans totaled $18.2 million, or 11.6% of total loans. Our policy is to originate single-family residential mortgage loans for portfolio in amounts up to 85% of the lower of the appraised value or the purchase price of the property securing the loan, without requiring private mortgage insurance. Loans in excess of 85% of the lower of the appraised value or purchase price of the property securing the loan require private mortgage insurance. Mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent.

Portfolio single-family ARM loans, which totaled $7.0 million, or 38.4% of the single-family mortgage loan portfolio at December 31, 2011, generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers payments rise, increasing the potential for default. Periodic and lifetime caps on interest rate increases help to reduce the credit risks associated with ARM loans, but also limit the interest rate sensitivity of such loans.

Commercial Real Estate and Multi-Family Residential Mortgage Lending. Origination of commercial real estate and multi-family residential mortgage loans has been a significant lending activity since 2003. Management decreased originations of these loan types beginning in June 2010 and continuing in 2011 in response to continued weak economic conditions impacting the financial strength of borrowers and market values of collateral underlying these types of loans, the related increased risk characteristics and adverse credit-related performance of CFBank s existing commercial real estate and multi-family residential loan portfolios and, after receipt of the CFBank Order, to comply with lending restrictions. Commercial real estate and multi-family residential mortgage loan balances decreased $19.1 million, or 16.5%, in 2011 and $18.6 million, or 13.8%, in 2010. Commercial real estate and multi-family residential mortgage loans totaled $96.9 million, or 61.6% of gross loans, at December 31, 2011, compared to $116.0 million, or 57.8% of gross loans, at December 31, 2010 and $134.6 million, or 56.3% of gross loans, at December 31, 2009. We anticipate that commercial real estate and multi-family residential mortgage lending activities and loan balances may continue to decrease as a result of the recessionary economic conditions which began in 2008 and continued through 2011, and the current capital position of CFBank. Future commercial real estate and multi-family lending activities are subject to a number of conditions including, but not limited to, the capital position of CFBank, the general economy, the performance of existing loans and the availability of appropriate funding sources.

We originate commercial real estate loans that are secured by properties used for business purposes, such as manufacturing facilities, office buildings or retail facilities. We originate multi-family residential mortgage loans that are secured by apartment buildings, condominiums, and multi-family residential houses. Commercial real estate and multi-family residential mortgage loans are secured by properties generally located in our primary market area.

Table of Contents

Underwriting policies provide that commercial real estate and multi-family residential mortgage loans may be made in amounts up to 75% of the lower of the appraised value or purchase price of the property. An independent appraisal of the property is required on all loans greater than or equal to $250,000. In underwriting commercial real estate and multi-family residential mortgage loans, we consider the appraised value and net operating income of the property, the debt service ratio and the property owner s and/or guarantor s financial strength, expertise and credit history. We offer both fixed and adjustable rate loans. Fixed rates are generally limited to three to five years, at which time they convert to adjustable rate loans. CFBank also accommodates borrowers who desire fixed rate loans for longer than three to five years by utilizing interest-rate swaps to protect the related fixed rate loans from changes in value due to changes in interest rates. See Note 20 to the Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information on interest-rate swaps. Adjustable rate loans are tied to various market indices and generally adjust monthly or annually. Payments on both fixed and adjustable rate loans are based on 15 to 25 year amortization periods.

Commercial real estate and multi-family residential mortgage loans are generally considered to involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by commercial real estate and multi-family residential properties are dependent on successful operation or management of the properties, repayment of commercial real estate and multi-family residential mortgage loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. As with single-family residential mortgage loans, adjustable rate commercial real estate and multi-family residential mortgage loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers payments rise, increasing the potential for default. Additionally, adjustable rate commercial real estate and multi-family residential mortgage loans generally do not contain periodic and lifetime caps on interest rate changes. We seek to minimize the additional risk presented by adjustable rate commercial real estate and multi-family residential mortgage loans through underwriting criteria that require such loans to be qualified at origination with sufficient debt coverage ratios under increasing interest rate scenarios.

Commercial real estate and multi-family residential mortgage loans also have larger loan balances to single borrowers or groups of related borrowers compared to single-family residential mortgage loans. Some of our borrowers also have more than one commercial real estate or multi-family residential mortgage loan outstanding with us. Additionally, some loans may be collateralized by junior liens. Consequently, an adverse development involving one or more loans or credit relationships can expose us to significantly greater risk of loss compared to an adverse development involving a single-family residential mortgage loan. We seek to minimize and mitigate these risks through underwriting policies which require such loans to be qualified at origination on the basis of the property s income and debt coverage ratio and the financial strength of the property owners and/or guarantors.

Commercial Lending. Origination of commercial loans has been a significant lending activity since 2003. Management decreased the origination of commercial loans beginning in June 2010 and continuing in 2011 in response to continued weak economic conditions impacting the financial strength of companies requesting financing, the increased risk characteristics and adverse credit-related performance of the existing commercial loan portfolio and, after receipt of the CFBank Order, to comply with lending restrictions. Commercial loan balances decreased $12.2 million, or 31.9%, in 2011 and $4.7 million, or 11.0%, in 2010. Commercial loans totaled $26.0 million, or 16.5% of gross loans, at December 31, 2011, compared to $38.2 million, or 19.0% of gross loans, at December 31, 2010 and $42.9 million, or 17.9% of gross loans, at December 31, 2009. We anticipate that commercial lending activities and loan balances may continue to decrease as a result of the recessionary economic conditions which began in 2008 and continued through 2011, and the capital position of CFBank. Future commercial lending activities are subject to a number of conditions including, but not limited to, the capital position of CFBank, the general economy, the performance of existing loans and the availability of appropriate funding sources.

Table of Contents

We make commercial loans primarily to businesses generally located within our primary market area. Those loans are generally secured by business equipment, inventory, accounts receivable and other business assets. In underwriting commercial loans, we consider the net operating income of the company, the debt service ratio and the financial strength, expertise and credit history of the business owners and/or guarantors. We offer both fixed and adjustable rate commercial loans. Fixed rates are generally limited to three to five years. Adjustable rate loans are tied to various market indices and generally adjust monthly or annually.

Commercial loans are generally considered to involve a greater degree of risk than loans secured by real estate. Because payments on commercial loans are dependent on successful operation of the business enterprise, repayment of such loans may be subject to a greater extent to adverse conditions in the economy. We seek to mitigate these risks through underwriting policies which require such loans to be qualified at origination on the basis of the enterprise s income and debt coverage ratio and the financial strength of the business owners and/or guarantors.

Adjustable rate commercial loans generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers payments rise, increasing the potential for default. Additionally, adjustable rate commercial loans generally do not contain periodic and lifetime caps on interest rate changes. We seek to minimize the additional risk presented by adjustable rate commercial loans through underwriting criteria that require such loans to be qualified at origination with sufficient debt coverage ratios under increasing interest rate scenarios.

Construction and Land Lending. To a lesser extent, we originate construction, land and land development loans in our primary market areas. Management decreased the origination of these loans beginning in June 2010 and continuing in 2011 in response to continued weak economic conditions impacting the financial strength of borrowers and market values of collateral underlying these types of loans, adverse credit-related performance of the existing land loan portfolio and, after receipt of the CFBank Order, to comply with lending restrictions. Construction loan balances decreased $4.9 million, or 100%, in 2011. There were no construction loan balances outstanding at December 31, 2011. Land loan balances decreased $500,000, or 8.5%, in 2011 and totaled $5.4 million at December 31, 2011. We anticipate that construction, land and land development lending activities may continue to be minimal as a result of the recessionary economic conditions which began in 2008 and continued through 2011, and the capital position of CFBank. Future construction, land and land development lending activities are subject to a number of conditions including, but not limited to, the capital position of CFBank, the general economy, the performance of existing loans and the availability of appropriate funding sources.

Construction loans are made to finance the construction of residential and commercial properties generally located within our primary market area. Construction loans are fixed or adjustable-rate loans which may convert to permanent loans with maturities of up to 30 years. Our policies provide that construction loans may be made in amounts up to 75% of the appraised value of the property, and an independent appraisal of the property is required. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant, and regular inspections are required to monitor the progress of construction. Land development loans generally do not exceed 65% of the actual cost or current appraised value of the property, whichever is less. Loans on raw land generally do not exceed 65% of the actual cost or current appraised value of the property, whichever is less.

Construction and land financing is considered to involve a higher degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction or development compared to the estimated cost (including interest) of construction. If the estimate of value proves to be inaccurate, we may be confronted with a project, when completed, having a value which is insufficient to assure full repayment. We attempt to reduce such risks on construction loans by requiring personal guarantees and reviewing current personal financial statements and tax returns, as well as other projects of the developer.

Table of Contents

Consumer and Other Lending. The consumer loan portfolio generally consists of home equity lines of credit, automobile loans, home improvement loans and loans secured by deposits. At December 31, 2011 the consumer loan portfolio totaled $16.1 million, or 10.3% of gross loans receivable.

Home equity lines of credit comprise the majority of consumer loan balances and totaled $14.9 million at December 31, 2011. Home equity lines of credit include both purchased loans and loans we originated for our portfolio. In 2005 and 2006, we purchased home equity lines of credit collateralized by properties located throughout the United States. The outstanding balance of the purchased home equity lines of credit totaled $2.6 million at December 31, 2011.

We offer a variable rate home equity line of credit which we originate for our portfolio. The interest rate adjusts monthly at various margins above the prime rate of interest as disclosed in *The Wall Street Journal.* The margin is based on certain factors including the loan balance, value of collateral, election of auto-payment and the borrower s FICO® score. The amount of the line is based on the borrower s credit history, income and equity in the home. When combined with the balance of the prior mortgage liens, these lines generally may not exceed 89.9% of the appraised value of the property at the time of the loan commitment. The lines are secured by a subordinate lien on the underlying real estate and are, therefore, vulnerable to declines in property values in the geographic areas where the properties are located. Credit approval for home equity lines of credit requires income sufficient to repay principal and interest due, stability of employment, an established credit record and sufficient collateral.

The purchased home equity lines of credit present higher risk than the home equity lines of credit we originate for our portfolio. The purchased home equity lines of credit are collateralized by properties located throughout the United States, including geographic areas that have experienced significant declines in housing values, such as California, Florida and Virginia. The collateral values associated with certain loans in these states have declined by up to approximately 55% since these loans were originated in 2005 and 2006, and as a result, some loan balances exceed collateral values. As the depressed state of the housing market and general economy has continued, we have experienced increased write-offs in the purchased portfolio. We continue to monitor collateral values and borrower FICO® scores and, when the situation warrants, have frozen the lines of credit.

Auto loan balances primarily represent remaining unpaid amounts on pools of loans purchased in 2005, 2006, 2007 and 2009. The remaining balance of these purchased auto loans, $4.3 million, was sold in 2010. We continue to originate a few automobile loans, primarily as a courtesy to our existing customers.

Delinquencies and Classified Assets. The Board of Directors monitors the status of all loans 30 days or more past due, past due statistics and trends for all loans on a monthly basis. Procedures with respect to resolving delinquencies vary depending on the nature and type of the loan and period of delinquency. In general, we make every effort, consistent with safety and soundness principles, to work with the borrower to have the loan brought current. If the loan is not brought current, it then becomes necessary to take legal action and/or repossess collateral.

We maintain an internal credit rating system and loan review procedures specifically developed to monitor credit risk for commercial, commercial real estate and multi-family residential loans. Internal loan reviews for these loan types are performed at least annually, and more often for loans with higher credit risk. Loan officers maintain close contact with borrowers between reviews. Adjustments to loan risk ratings are based on the reviews and at any time information is received that may affect risk ratings. Additionally, an independent third party review of commercial, commercial real estate and multi-family residential loans, which was performed annually prior to June 2010, is now performed semi-annually. Management uses the results of these reviews to help determine the effectiveness of the existing policies and procedures and to provide an independent assessment of our internal loan risk rating system.

Table of Contents

Federal regulations and CFBank s asset classification policy require use of an internal asset classification system as a means of reporting and monitoring assets. We have incorporated the regulatory asset classifications as a part of our credit monitoring and internal loan risk rating system. Loans are classified into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. In accordance with regulations, problem loans are classified as special mention, substandard, doubtful or loss, and the classifications are subject to review by the regulators. Loans designated as special mention are considered criticized assets. Loans designated as substandard, doubtful or loss are considered classified assets. Loans designated as special mention possess weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the loan or of CFBank s credit position at some future date. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that there will be some loss if the deficiencies are not corrected. A loan considered doubtful has all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, condition and values, highly questionable and improbable. Loans considered loss are uncollectible and have so little value that their continuance as assets without the establishment of a specific loss allowance is not warranted.

See the section titled Financial Condition - *Allowance for loan losses* and Notes 1 and 4 to the Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for detailed information on criticized and classified loans as of December 31, 2011 and 2010.

Table of Contents

Classified loans include all nonaccrual loans, which are discussed in further detail in the section titled *Nonperforming Assets*. In addition to nonaccrual loans, classified loans include the following loans that were identified as substandard assets, were still accruing interest at December 31, 2011, but exhibit weaknesses that could lead to nonaccrual status in the future. Two of these loans were less than 30 days delinquent at December 31, 2011 and the payments were made in January 2012.

	Number of Loans	Balance
	(Dollars in thousands)	
Commercial	16	$ 3,862
Multi-family residential real estate	4	2,233
Commercial real estate	22	11,083
Total	42	$ 17,178

The following table sets forth information concerning delinquent loans in dollar amounts and as a percentage of the total loan portfolio. The amounts presented represent the total remaining balances of the loans rather than the actual payment amounts which are overdue. Loans shown as 90 days or more delinquent include nonaccrual loans, regardless of delinquency.

	December 31, 2011				December 31, 2010				December 31, 2009			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
	(Dollars in thousands)											
Real estate loans:												
Single-family	7	$ 281	11	$ 736	8	$ 444	3	$ 266		$	6	$ 426
Multi-family			3	4,996			3	3,986			8	4,406
Commercial	1	51	6	2,356			5	3,550	2	515	15	6,864
Consumer loans:												
Home equity lines of credit			3	166	1	54	2	161			5	1,307
Home equity loans	1	30										
Automobile									3	18	1	14
Other					1	31	1	10	3	4		
Commercial loans			1	47			5	2,084			1	217
Total delinquent loans	9	362	24	8,301	10	$ 529	19	$ 10,057	8	$ 537	36	$ 13,234
Delinquent loans as a percent of total loans		.23%		5.28%		.26%		5.02%		.22%		5.54%

The table does not include delinquent loans less than 60 days past due. At December 31, 2011, 2010, and 2009, loans past due 30 to 59 days totaled $981, $2,316 and $4,000, respectively.

	December 31, 2008				December 31, 2007			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans	Number of Loans	Balance of Loans
	(Dollars in thousands)							
Real estate loans:								
Single-family		$	3	$ 63		$	5	$ 332
Multi-family			3	1,264				
Commercial	1	530	1	347				
Construction								
Consumer loans:								
Home equity lines of credit			1	60			1	146
Automobile	1	2					1	9
Other	1	1	1	32				
Commercial loans			1	646			1	1
Total delinquent loans	3	$ 533	10	$ 2,412		$	8	$ 488
Delinquent loans as a percent of total loans		.22%		1.01%		.00%		.21%

The table does not include delinquent loans less than 60 days past due. At December 31, 2008 and 2007, loans past due 30 to 59 days totaled $1,070 and $333, respectively.

Nonperforming Assets. The following table contains information regarding nonperforming loans and repossessed assets. CFBank s policy is to stop accruing interest on loans 90 days or more past due unless the loan principal and interest are determined by management to be fully secured and in the process of collection. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income.

	At December 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(Dollars in thousands)				
Nonaccrual loans:					
Single-family real estate	$ 736	$ 266	$ 426	$ 63	$ 235
Multi-family real estate	4,996	3,986	4,406	1,264	
Commercial real estate	2,356	3,550	6,864		
Consumer	166	171	1,307	92	155
Commercial	47	2,084	217	646	1
Total nonaccrual loans	8,301	10,057	13,220	2,065	391
Loans past due 90 days or more and still accruing:					
Single-family real estate					97
Commercial real estate				347	
Consumer			14		
Total nonperforming loans(1)	8,301	10,057	13,234	2,412	488
REO	2,370	3,509			86
Other foreclosed assets		1,000			
Total nonperforming assets(2)	$ 10,671	$ 14,566	$ 13,234	$ 2,412	$ 574
Troubled debt restructurings (TDRs)(3)	4,597	839	1,310		
Total nonperforming assets and troubled debt restructurings	$ 15,268	$ 15,405	$ 14,544	$ 2,412	$ 574
Nonperforming loans to total loans	5.28%	5.02%	5.54%	1.01%	.21%
Nonperforming assets to total assets	4.25%	5.29%	4.83%	.87%	.21%

(1) Total nonperforming loans consist of nonaccrual loans and loans past due 90 days or more and still accruing.

(2) Nonperforming assets consist of nonperforming loans, REO and other foreclosed assets.

(3) TDRs where customers have established a sustained period of repayment performance, loans are current according to their modified terms, and repayment of the remaining contractual payments is expected.

The decrease in nonperforming loans in 2011 compared to 2010 was primarily due to $7.5 million in loan charge-offs, and, to a lesser extent, loan payments and proceeds from the sale of the underlying collateral of various loans, partially offset by $7.3 million in additional loans that became nonperforming during 2011. The $7.3 million in loans that became nonperforming during 2011 were primarily related to two multi-family residential real estate loans which totaled $4.4 million, four commercial real estate loans which totaled $2.2 million and ten single-family loans which totaled $653,000 at December 31, 2011. The high level of nonperforming loans in 2011, 2010 and 2009 was primarily related to deterioration in the commercial, multi-family residential real estate, commercial real estate, and home equity lines of credit portfolios as a result of the sustained adverse economic conditions and its affect on collateral values and borrowers ability to make loan payments. For the year ended December 31, 2011, the amount of additional interest income that would have been recognized on nonaccrual loans, if such loans had continued to perform in accordance with their contractual terms, was approximately $268,000. There was no interest income recognized on nonaccrual loans in 2011.

Table of Contents

The increase in TDRs in 2011 was primarily due to implementation of Accounting Standards Update (ASU) No. 2011-02 to Receivables (ASC 310), *A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring.* This ASU was effective for CFbank for loan modifications beginning January 1, 2011 and amended existing guidance for assisting a creditor in determining whether a restructuring is a TDR. The amendments clarified the guidance for a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the ASU clarified that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor s ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. As a result of implementation of this amended guidance, $8.4 million of loans restructured in 2011 were identified as TDRs.

As a component of management s focus on the work out of troubled credits, the terms of certain loans were modified in TDRs, where concessions were granted to borrowers experiencing financial difficulties. The modification of the terms of such loans may have included one or a combination of the following: a reduction of the stated interest rate of the loan; an increase in the stated rate of interest lower than the current market rate for new debt with similar risk; an extension of the maturity date; or a change in the payment terms. At December 31, 2011, nonaccrual loans included $3.0 million in TDRs.

At December 31, 2011, TDRs included $94,000 in multi-family loans, $3.1 million in commercial real estate loans, $651,000 in land loans and $773,000 in commercial loans which were not included in nonperforming loans, where customers have established a sustained period of repayment performance, loans are current according to their modified terms, and repayment of the remaining contractual payments is expected. Interest income recognized on these troubled debt restructurings totaled $161,000 in 2011. For the year ended December 31, 2011, the amount of interest income that would have been recognized on these troubled debt restructurings, if such loans had continued to perform in accordance with the original contract terms, would have been approximately $10,000 lower due to an increase in interest rates on some of the restructured loans from the original contract rates.

See the section titled Financial Condition - *Allowance for loan losses* and Notes 1 and 4 to the Consolidated Financial Statements included in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for additional information on nonperforming loans and TDRs as of December 31, 2011 and 2010.

For information on real estate owned (REO) and other foreclosed assets, see the section titled Foreclosed Assets.

Allowance for Loan Losses (ALLL). The ALLL is a valuation allowance for probable incurred credit losses. The ALLL methodology is designed as part of a thorough process that incorporates management s current judgments about the credit quality of the loan portfolio into a determination of the ALLL in accordance with generally accepted accounting principles and supervisory guidance. Management analyzes the adequacy of the ALLL quarterly through reviews of the loan portfolio, including: the nature and volume of the loan portfolio and segments of the portfolio; industry and loan concentrations; historical loss experience; delinquency statistics and the level of nonperforming loans; specific problem loans; the ability of borrowers to meet loan terms; an evaluation of collateral securing loans and the market for various types of collateral; various collection strategies; current economic condition, trends and outlook; and other factors that warrant recognition in providing for an adequate ALLL. See the section titled Financial Condition - *Allowance for loan losses* in our 2011 Annual Report to Stockholders, attached as Exhibit 13.1 to this Form 10-K, for a detailed discussion of management s methodology for determining the appropriate level of the ALLL.

Table of Contents

The ALLL totaled $6.1 million at December 31, 2011 and decreased $3.7 million, or 37.4%, from $9.8 million at December 31, 2010, and decreased $980,000, or 13.8%, from $7.1 million at December 31, 2009. The ratio of the ALLL to total loans totaled 3.89% at December 31, 2011, compared to 4.87% at December 31, 2010, and 2.97% at December 31, 2009. The decrease in the ALLL for the current year period was due to a decrease in overall loan balances, the charge-off of certain nonperforming loans, a decrease in nonperforming loans, a decrease in past due loans and a decrease in criticized and classified loans during the year ended December 31, 2011.

We believe the ALLL is adequate to absorb probable incurred credit losses in the loan portfolio as of December 31, 2011; however, future additions to the allowance may be necessary based on factors including, but not limited to, further deterioration in client business performance, continued or deepening recessionary economic conditions, declines in borrowers cash flows, and market conditions which result in lower real estate values. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the ALLL. Such agencies may require additional provisions for loan losses based on judgments and estimates that differ from those used by management. Management continues to diligently monitor credit quality in the existing portfolio and analyze potential loan opportunities carefully in order to manage credit risk. An increase in the ALLL and loan losses could occur if economic conditions and factors which affect credit quality, real estate values and general business conditions worsen or do not improve.

Table of Contents

The following table sets forth activity in the ALLL for the periods indicated.

	2011	2010	2009	2008	2007
			(Dollars in thousands)		
ALLL, beginning of period	$ 9,758	$ 7,090	$ 3,119	$ 2,684	$ 2,109
Charge-offs:					
Real estate mortgage loans:					
Single-family	124	169	453	73	27
Multi-family	3,167	250	287		
Commercial real estate	2,652	3,145	1,114		
Consumer loans:					
Home equity lines of credit	241	830	388	360	
Automobile		50	17	61	15
Other	18	44	7	3	2
Commercial	1,296	1,677	3,998		
Total charge-offs	7,498	6,165	6,264	497	44
Recoveries on loans previously charged off:					
Real estate mortgage loans:					
Single-family	7				