OptimumBank Holdings, Inc.
Form 10-Q
August 15, 2016

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 June 30, 2016

or

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

For the transition period from __________ to _________

Commission File Number: **000-50755**

OPTIMUMBANK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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

2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-900-2800

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,143,916 shares of Common Stock, $.01 par value, issued and outstanding as of August 15, 2016.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets

(Dollars in thousands, except per share amounts)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets:		
Cash and due from banks	$ 13,240	$ 10,162
Interest-bearing deposits with banks	424	203
Total cash and cash equivalents	13,664	10,365
Securities available for sale	23,322	25,749
Loans, net of allowance for loan losses of $4,240 and $2,295	79,410	82,573
Federal Home Loan Bank stock	1,017	966
Premises and equipment, net	2,706	2,703
Foreclosed real estate, net	2,412	4,029
Accrued interest receivable	350	462
Other assets	767	631
Total assets	$ 123,648	$ 127,478
Liabilities and Stockholders' Equity:		
Liabilities:		
Noninterest-bearing demand deposits	7,547	9,478
Savings, NOW and money-market deposits	22,777	24,034
Time deposits	61,817	64,059
Total deposits	92,141	97,571
Federal Home Loan Bank advances	20,500	20,000
Junior subordinated debenture	5,155	5,155
Advanced payment by borrowers for taxes and insurance	558	251
Official checks	205	130

Other liabilities	1,429	1,404
Total liabilities	119,988	124,511
Stockholders' equity:		
Preferred stock, no par value; 6,000,000 shares authorized, 7 shares issued and outstanding in 2016 and 4 shares issued and outstanding in 2015	—	—
Common stock, $.01 par value; 5,000,000 shares authorized, 1,143,916 shares issued and outstanding in 2016 and 50,000,000 shares authorized, 9,628,863 shares issued and outstanding in 2015	11	96
Additional paid-in capital	34,215	33,330
Accumulated deficit	(30,652)	(30,321)
Accumulated other comprehensive income (loss)	86	(138)
Total stockholders' equity	3,660	2,967
Total liabilities and stockholders' equity	$ 123,648	$ 127,478

See accompanying notes to condensed consolidated financial statements

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations (Unaudited)

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income:				
Loans	$1,054	$967	$2,074	$1,854
Securities	124	145	251	307
Other	27	20	50	38
Total interest income	1,205	1,132	2,375	2,199
Interest expense:				
Deposits	186	162	368	316
Borrowings	95	59	170	116
Total interest expense	281	221	538	432
Net interest income	924	911	1,837	1,767
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	924	911	1,837	1,767
Noninterest income:				
Service charges and fees	22	14	41	30
Gain on sale of securities available for sale	17	—	45	32
Other	7	86	7	138
Total noninterest income	46	100	93	200
Noninterest expenses:				
Salaries and employee benefits	487	475	955	941
Occupancy and equipment	108	122	235	247
Data processing	86	68	173	140
Professional fees	170	151	329	252
Insurance	25	29	52	59

Foreclosed real estate, net	8	27	36	46
Regulatory assessment	74	78	147	147
Other	66	55	334	311
Total noninterest expenses	1,024	1,005	2,261	2,143
Net (loss) earnings	$(54)	$6	$(331)	$(176)
Net (loss) earnings per share- Basic and diluted	$(0.05)	$.01	$(0.33)	$(.19)
Dividends per share	$—	$—	$—	$—

See accompanying notes to condensed consolidated financial statements

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net (loss) earnings	$(54)	$6	$(331)	$(176)
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale:				
Unrealized gain (loss) arising during the period	126	(381)	407	(151)
Reclassification adjustment for realized gains on securities available for sale	(17)	—	(45)	(32)
Net change in unrealized gain (loss)	109	(381)	362	(183)
Deferred income taxes (benefit) on above change	43	(143)	138	(69)
Total other comprehensive income (loss)	66	(238)	224	(114)
Comprehensive income (loss)	$12	$(232)	$(107)	$(290)

See accompanying notes to condensed consolidated financial statements

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Stockholders' Equity

Six Months Ended June 30, 2016 and 2015

(Dollars in thousands)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Total Stockholders'
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Deficit**	**(Loss)**	**Equity**
Balance at December 31, 2014	—	$ —	9,305,236	$ 93	$ 32,961	$ (30,158)	$ 83	$ 2,979
Proceeds from sale of preferred stock (unaudited)	2	—	—	—	50	—	—	50
Common stock issued as compensation to directors (unaudited)	—	—	240,443	2	215	—	—	217
Net loss for the six months ended June 30, 2015 (unaudited)	—	—	—	—	—	(176)	—	(176)
Net change in unrealized gain on securities available for sale (unaudited)	—	—	—	—	—	—	(114)	(114)
Balance at June 30, 2015 (unaudited)	2	$ —	9,545,679	$ 95	$ 33,226	$ (30,334)	$ (31)	$ 2,956
Balance at December 31, 2015	4	$ —	9,628,863	$ 96	$ 33,330	$ (30,321)	$ (138)	$ 2,967
Reverse common stock split (1-for-10) (unaudited)	—	—	(8,665,694)	(87)	87	—	—	—
	3	—	—		75	—	—	75

Proceeds from sale of Preferred stock (unaudited)								
Proceeds from sale of common stock (unaudited)	—	—	92,980	1	374	—	—	375
Common stock issued as compensation to directors (unaudited)	—	—	51,649	1	221	—	—	222
Common stock issued for services (unaudited)	—	—	36,118	—	128	—	—	128
Net loss for the six months ended June 30, 2016 (unaudited)	—	—	—	—	—	(331)	—	(331)
Net change in unrealized loss on securities available for sale, net of taxes (unaudited)	—	—	—	—	—	—	224	224
Balance at June 30, 2016 (unaudited)	7	$ —	1,143,916	$ 11	$ 34,215	$ (30,652)	$ 86	$ 3,660

See accompanying notes to condensed consolidated financial statements

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(331)	$(176)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	78	81
Gain on sale of securities available for sale	(45)	(32)
Net amortization of fees, premiums and discounts	115	140
Common stock issued as compensation to directors	222	217
Common stock issued as compensation for services	128	—
Increase in other assets	(136)	(284)
Decrease (increase) in accrued interest receivable	112	(10)
(Decrease) increase in official checks and other liabilities	(38)	644
Net cash provided by operating activities	105	580
Cash flows from investing activities:		
Purchase of securities available for sale	(8,985)	(3,236)
Principal repayments of securities available for sale	1,891	2,225
Net decrease (increase) in loans	3,128	(6,861)
Proceeds from sale of securities available for sale	9,848	1,986
Purchase of premises and equipment	(81)	(10)
Proceeds from sale of foreclosed real estate, net	1,617	610
(Purchase) redemption of Federal Home Loan Bank stock	(51)	146
Net cash provided by (used in) investing activities	7,367	(5,140)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(5,430)	7,118
Net increase in advance payments by borrowers for taxes and insurance	307	382
Proceeds from sale of common stock	375	—
Proceeds from sale of preferred stock	75	50
Net Increase in FHLB Advances	500	—
Net cash (used in) provided by financing activities	(4,173)	7,550

Net increase in cash and cash equivalents	3,299	2,990
Cash and cash equivalents at beginning of the period	10,365	12,074
Cash and cash equivalents at end of the period	$13,664	$15,064

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows (Unaudited), Continued

(In thousands)

	Six Months Ended June 30,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$446	$356
Income Taxes	$—	$—
Noncash investing activity-		
Change in accumulated other comprehensive income (loss), net change in unrealized gain (loss) on securities available for sale	$224	$(114)

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 Florida-chartered commercial bank. The Bank's wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holdings 1503, LLC, all of which were formed in 2009; OB Real Estate Holdings Northwood formed in 2011; OB Real Estate Holdings 1692 and OB Real Estate Holdings 1704 formed in 2012, OB Real Estate Holdings 1518, LLC and OB Real Estate Holding 1676 formed in 2015, collectively, (the "Real Estate Holding Subsidiaries"). The Holding Company's only business is the operation of the Bank and its subsidiaries (collectively, the "Company"). The Bank's deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). The Bank offers a variety of 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 2016 and 2015. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at June 30, 2016, the results of operations and comprehensive income (loss) for the three and six month periods ended June 30, 2016 and 2015 and cash flows for the six month periods ending June 30, 2016 and 2015. The results of operations for the three and six months ended June 30, 2016, are not necessarily indicative of the results to be expected for the full year.

***Going Concern Status*.** The Company is in default with respect to its $5,155,000 Junior Subordinated Debenture ("Debenture") due to its failure to make certain required interest payments under the Debenture. The Trustee of the Debenture (the "Trustee") or the holders of the Debenture are entitled to accelerate the payment of the $5,155,000 principal balance plus accrued and unpaid interest totaling $1,047,700 at June 30, 2016. No adjustments to the accompanying consolidated financial statements have been made as a result of this uncertainty. Management's plans with regard to this matter are as follows: A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the Debenture. Although the Director tendered the purchase price for the Debenture in 2014, the Trustee has received conflicting directions and therefore on December 11, 2014, the Trustee commenced an Action for Interpleader in the United States District Court for the Southern District of New York. On August 31, 2015, the court held that the Trustee could not sell the Debenture to the Director because certain conditions and requirements set forth in the indenture for the Trust had not been fulfilled. The Director has continued his efforts to acquire the Debenture. To date the Trustee has not accelerated the outstanding balance of the Debenture. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

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

Income Taxes. The Company assessed its earnings history and trends and estimates of future earnings, and determined that the deferred tax asset could not be realized as of June 30, 2016. Accordingly, a valuation allowance was recorded against the net deferred tax asset.

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,* which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identity impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available for-sale debt securities in combination with the Company's other deferred tax assets. These amendments are effective for the Company beginning January 1, 2018. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(1) ***General, Continued.*** In February 2016, the FASB issued ASU 2016-2, *Leases (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018. The Company is in the process of determining the effect of the ASU on its consolidated balance sheets and statements of operations. Early application will be permitted.

In June 2016, FASB issued Accounting Standards Update ("ASU") No. 2016-13 Financial Instruments-Credit Losses (Topic 326). The ASU improves financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by the Company. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

Reclassification. Certain amounts have been reclassified to conform to the 2016 financial statement presentation.

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

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(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 June 30, 2016:				
Securities Available for Sale-				
Mortgage-backed securities	$4,910	$59	$0	$4,969
Collateralized mortgage obligations	18,275	100	(22)	18,353
Total	$23,185	$159	$(22)	$23,322
At December 31, 2015:				
Securities Available for Sale-				
Mortgage-backed securities	$10,107	$31	$(52)	$10,086
Collateralized mortgage obligations	15,223	21	(227)	15,017
SBA Pool Security	644	2	—	646
Total	$25,974	$54	$(279)	$25,749

Gross proceeds received with respect to the sale of securities available for sale were $9,848,000 and $1,986,000 during the six month periods ended June 30, 2016 and 2015, respectively. Gross gains of $45,000 and $32,000 were recognized in connection with these sales in 2016 and 2015, respectively.

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

At June 30, 2016			
Over Twelve Months		**Less Than Twelve Months**	
Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value

Securities Available for Sale-				
Collateralized mortgage obligations	$(9)	$1,189	$(13)	$1,168

	At December 31, 2015			
	Over Twelve Months		Less Than Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
Mortgage-backed securities	$—	$ —	$(52)	$5,526
Collateralized mortgage obligations	—	—	(227)	11,783
	$	$	$(279)	$17,309

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(2) ***Securities, Continued.*** At June 30, 2016, the unrealized losses on three investment securities were caused by market conditions. It is expected that the securities would not be settled at a price less than the book value of the investments. Because the decline in fair value is attributable to market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment ("OTTI") losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (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 securities with unrealized losses, management utilizes various resources, including input from independent third-party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue, and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the prescribed data set of FICO score, locations, LTV and documentation type, and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis.

The Company did not record any OTTI losses for securities available for sale.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	At June 30, 2016	At December 31, 2015
Residential real estate	$24,993	$16,203
Multi-family real estate	4,111	3,697
Commercial real estate	33,910	34,771
Land and construction	4,129	5,258
Commercial	13,378	21,770
Consumer	2,539	3,015
Total loans	83,060	84,714
Add (deduct):		
Net deferred loan fees, costs and premiums	590	154
Allowance for loan losses	(4,240)	(2,295)
Loans, net	$79,410	$82,573

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Residential Real Estate	Multi-Family Real Estate	Commercial Real Estate	Land and Construction	Commercial	Consumer	Unallocated	Total
Three Months Ended June 30, 2016:								
Beginning balance	$ 266	$ 40	$ 1,175	$ 81	$ 210	$ 151	$ 2,157	$ 4,080
Provision (credit) for loan losses	(4)	(1)	(404)	(23)	(10)	92	350	—
Charge-offs	—	—	—	—	—	(90)	—	(90)
Recoveries	—	—	241	6	—	3	—	250
Ending balance	$ 262	$ 39	$ 1,012	$ 64	$ 200	$ 156	$ 2,507	$ 4,240
Six Months Ended June 30, 2016:								
Beginning balance	$ 116	$ 26	$ 1,085	$ 77	$ 120	$ 151	$ 720	$ 2,295
Provision (credit) for loan losses	146	13	(2,122)	(25)	80	121	1,787	—
Charge-offs	—	—	—	—	—	(122)	—	(122)
Recoveries	—	—	2,049	12	—	6	—	2,067
Ending balance	$ 262	$ 39	$ 1,012	$ 64	$ 200	$ 156	$ 2,507	$ 4,240
Three Months Ended June 30, 2015:								
Beginning balance	$ 70	$ 21	$ 2,003	$ 106	$ 48	$ —	$ —	$ 2,248
Provision (credit) for loan losses	47	4	(595)	(72)	29	147	440	—
Charge-offs	(69)	—	—	—	—	—	—	(69)
Recoveries	—	—	—	—	—	—	—	—
Ending balance	$ 48	$ 25	$ 1,408	$ 34	$ 77	$ 147	$ 440	$ 2,179
Six Months Ended June 30, 2015:								
Beginning balance	$ 66	$ 2	$ 1,794	$ 99	$ 17	$ —	$ 266	$ 2,244

Provision (credit) for loan losses	51	23	(386)	(65)	60	143	174	—
Charge-offs	(69)	—	—	—	—	—	—	(69)
Recoveries	—	—	—	—	—	4	—	4
Ending balance	$ 48	$ 25	$ 1,408	$ 34	$ 77	$ 147	$ 440	$ 2,179
At June 30, 2016:								
Individually evaluated for impairment:								
Recorded investment	$ 1,276	$ —	$ 2,142	$ —	$ —	$ —	$ —	$ 3,418
Balance in allowance for loan losses	$ —	$ —	$ 274	$ —	$ —	$ —	$ —	$ 274
Collectively evaluated for impairment:								
Recorded investment	$ 23,717	$ 4,111	$ 31,768	$ 4,129	$ 13,378	$ 2,539	$ —	$ 79,642
Balance in allowance for loan losses	$ 262	$ 39	$ 738	$ 64	$ 200	$ 156	$ 2,507	$ 3,966
At December 31, 2015:								
Individually evaluated for impairment:								
Recorded investment	$ 1,319	$ —	$ 4,273	$ —	$ —	$ —	$ —	$ 5,592
Balance in allowance for loan losses	$ —	$ —	$ 13	$ —	$ —	$ —	$ —	$ 13
Collectively evaluated for impairment:								
Recorded investment	$ 14,884	$ 3,697	$ 30,498	$ 5,258	$ 21,770	$ 3,015	$ —	$ 79,122
Balance in allowance for loan losses	$ 116	$ 26	$ 1,072	$ 77	$ 120	$ 151	$ 720	$ 2,282

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(3) ***Loans, Continued. Residential Real Estate, Multi-Family Real Estate, Commercial Real Estate, Land and Construction.*** All 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 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, cost estimates and pre-construction sales information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for 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.

Commercial. Commercial business loans and lines of credit 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 and the collateral securing 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 its underwriting standards.

Consumer. 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.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Pass	OLEM (Other Loans Especially Mentioned)	Sub-standard	Doubtful	Loss	Total
At June 30, 2016:						
Residential real estate	$22,953	$ 1,011	$ 1,029	$ —	$ —	$24,993
Multi-family real estate	4,111	—	—	—	—	4,111
Commercial real estate	29,504	2,264	2,142	—	—	33,910
Land and construction	4,083	46	—	—	—	4,129
Commercial	13,378	—	—	—	—	13,378
Consumer	2,539	—	—	—	—	2,539
Total	$76,508	$ 3,321	$ 3,171	$ —	$ —	$83,060
At December 31, 2015:						
Residential real estate	$15,132	$ —	$ 1,071	$ —	$ —	$16,203
Multi-family real estate	3,697	—	—	—	—	3,697
Commercial real estate	29,925	573	4,273	—	—	34,771
Land and construction	5,212	46	—	—	—	5,258
Commercial	19,916	—	1,854	—	—	21,770
Consumer	3,015	—	—	—	—	3,015
Total	$76,897	$ 619	$ 7,198	$ —	$ —	$84,714

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 as Doubtful has all the weaknesses inherent in one classified as 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 charges off any loan classified as Doubtful.

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

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At June 30, 2016:							
Residential real estate	$—	$ —	$ —	$ —	$23,964	$ 1,029	$24,993
Multi-family real estate	—	—	—	—	4,111	—	4,111
Commercial real estate	—	—	—	—	32,785	1,125	33,910
Land and construction	—	—	—	—	4,129	—	4,129
Commercial	—	—	—	—	13,378	—	13,378
Consumer	72	—	—	72	2,467	—	2,539
Total	$72	$ —	$ —	$ 72	$80,834	$ 2,154	$83,060
At December 31, 2015:							
Residential real estate	$—	$ —	$ —	$ —	$15,132	$ 1,071	$16,203
Multi-family real estate	—	—	—	—	3,697	—	3,697
Commercial real estate	—	—	—	—	31,539	3,232	34,771
Land and construction	—	—	—	—	5,258	—	5,258
Commercial	—	—	—	—	21,770	—	21,770
Consumer	—	—	—	—	3,015	—	3,015
Total	$—	$ —	$ —	$ —	$80,411	$ 4,303	$84,714

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

	At June 30, 2016			At December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance

With no related allowance recorded:						
Residential real estate	$1,276	$ 1,904	$ —	$1,319	$ 2,243	$ —
Commercial real estate	1,018	1,018	—	3,232	6,584	—
Commercial	—	—	—	—	—	—
With related allowance recorded -						
Commercial real estate	$1,124	$ 1,281	274	1,041	1,041	13
Total						
Residential real estate	$1,276	$ 1,904	$ —	$1,319	$ 2,243	$ —
Commercial real estate	$2,142	$ 2,299	$ 274	$4,273	$ 7,625	$ 13
Total	$3,418	$ 4,203	$ 274	$5,592	$ 9,868	$ 13

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended June 30,					
	2016			2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate	$1,278	$ 23	$ 24	$5,937	$ —	$ 35
Commercial real estate	$2,528	$ 35	$ 32	$3,997	$ —	$ 36
Commercial	$—	$ —	$ —	$1,123	$ —	$ 16
Total	$3,806	$ 58	$ 56	$11,057	$ —	$ 87

	Six Months Ended June 30,					
	2016			2015		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Residential real estate	$1,289	$ 32	$ 48	$5,780	$ 34	$ 118
Commercial real estate	$2,814	$ 48	$ 66	$4,032	$ 21	$ 98
Commercial	$—	$ —	$ —	$1,131	$ —	$ 33
Total	$4,103	$ 80	$ 114	$10,943	$ 55	$ 249

No loans have been determined to be troubled debt restructurings during the six months ended June 30, 2016 or 2015.

(4) ***Regulatory Capital.*** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at June 30, 2016 of the regulatory capital requirements and the Bank's capital on a percentage basis:

Bank

		Consent Order Regulatory Requirement
Tier I capital to total average assets	7.54 %	8.00 %
Tier I capital to risk-weighted assets	10.84 %	N/A
Common equity Tier I capital to risk-weighted assets	10.84 %	N/A
Total capital to risk-weighted assets	12.14 %	12.00 %

At June 30, 2016, the Bank is well-capitalized. As a result of the Consent Order discussed in Note 9, the Bank cannot be categorized higher than "adequately capitalized" until the Consent Order is lifted, even if its ratios were to exceed those required to be a "well capitalized" bank.

(5) ***Earnings (Loss) Per Share.*** Basic earnings (loss) per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Earnings (loss) per common share have been computed based on the following (weighted-average number of common shares outstanding have been adjusted for the reverse stock split discussed in note 11):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted-average number of common shares outstanding used to calculate basic and diluted earnings (loss) per common share	1,046,268	953,691	1,004,719	950,034

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(6) ***Stock-Based Compensation.*** On December 27, 2011, the Company's stockholders approved the 2011 Equity Incentive Plan ("2011 Plan"). In May 2016, the Company increased the total number of shares available to be awarded from 105,000 shares (adjusted for the one-for-ten reverse stock split) to 210,000 shares. Options, restricted stock, performance share awards and bonus share awards in lieu of obligations may be issued under the 2011 Plan. Both incentive stock options and nonqualified stock options can be granted under the 2011 Plan. The exercise price of the stock options cannot be less than the fair market value of the common stock on the date of grant. Options must be exercised within ten years of the date of grant.

As of June 30, 2016, only common stock has been issued as compensation to directors for services rendered under this plan. 51,649 and 24,044 shares of common stock (adjusted for one-for-ten reverse stock split) were issued for the periods ended June 30, 2016 and 2015, respectively. A total of $222,000 and $217,000 of compensation was recorded during the 2016 and 2015 periods. At June 30, 2016 a total of 105,392 (adjusted for one-for-ten reverse stock split) shares remain available for grant.

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

	Fair Value	Level 1	Level 2	Level 3	Total Losses	Losses Recorded in Operations
At June 30, 2016:						
Residential real estate	$395	$ —	$ —	$395	$125	$ —
Commercial real estate	850	—	—	850	274	$ 274
	$1,245	$ —	$ —	$1,245	$399	$ 274
Foreclosed real estate	$2,412	$ —	$ —	$2,412	$1,118	$ —
At December 31, 2015:						
Residential real estate	$423	$ —	$ —	$423	$125	$ —
Commercial real estate	2,094	—	—	2,094	2,055	—
	$2,517	$ —	$ —	$2,517	$2,180	$ —
Foreclosed real estate	$4,029	$ —	$ —	$4,029	$1,403	$ 260

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	At June 30, 2016			**At December 31, 2015**		
	Carrying Amount	**Fair Value**	**Level**	**Carrying Amount**	**Fair Value**	**Level**
Financial assets:						
Cash and cash equivalents	$13,664	$13,664	1	$10,365	$10,365	1
Securities available for sale	23,322	23,322	2	25,749	25,749	2
Loans	79,410	79,525	3	82,573	82,429	3
Federal Home Loan Bank stock	1,017	1,017	3	966	966	3
Accrued interest receivable	350	350	3	462	462	3
Financial liabilities:						
Deposit liabilities	92,141	92,411	3	97,571	97,837	3
Federal Home Loan Bank advances	20,500	20,565	3	20,000	20,000	3
Junior subordinated debenture	5,155	N/A (1)	3	5,155	N/A (1)	3
Off-balance sheet financial instruments	—	—	3	—	—	3

(1) The Company is unable to determine value based on significant unobservable inputs required in the calculation. Refer to Note 10 for further information.

Discussion regarding the assumptions used to compute the estimated fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2015.

(9) ***Regulatory Matters.*** The Bank is subject to various regulatory capital requirements administered by the bank regulatory agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Effective January 1, 2015, the Bank, became subject to the new Basel III capital level threshold requirements under the Prompt Corrective Action regulations with full compliance with all of the final rule's requirements phased in over a multi-year schedule. These new regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

Changes that could affect the Bank going forward include additional constraints on the inclusion of deferred tax assets in capital and increased risk weightings for nonperforming loans and acquisition/development loans in regulatory capital. Under the new regulations in the first quarter of 2015, the Bank elected an irreversible one-time opt-out to exclude accumulated other comprehensive income (loss) from regulatory capital.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

(9) ***Regulatory Matters, Continued.*** As of June 30, 2016, the Bank is subject to a Consent Order issued by the Federal Deposit Insurance Corporation and the State of Florida Office of Financial Regulation ("OFR"), and accordingly is deemed to be "adequately capitalized" even if its capital ratios were to exceed those generally required to be a "well capitalized" bank. An institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. The Bank's actual capital amounts and percentages are also presented in the table (dollars in thousands):

The following table shows the Bank's capital amounts and ratios and regulatory thresholds at June 30, 2016 and December 31, 2015 (dollars in thousands):

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Requirements of Consent Order	
	Amount	%	Amount	%	Amount	%	Amount	%
As of June 30, 2016:								
Total Capital to Risk-Weighted Assets	$10,438	12.14%	$ 6,881	8.0 %	$8,601	10.0%	$10,321	12.0%
Tier I Capital to Risk-Weighted Assets	9,324	10.84	5,161	6.0	6,881	8.0	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,324	10.84	3,870	4.5	5,591	6.5	N/A	N/A
Tier I Capital to Total Assets	9,324	7.54	4,949	4.0	6,186	5.0	9,898	8.0
As of December 31, 2015:								
Total Capital to Risk-Weighted Assets	$10,319	11.40%	$ 7,240	8.0 %	$9,050	10.0%	$10,860	12.0%
Tier I Capital to Risk-Weighted Assets	9,173	10.14	5,430	6.0	7,240	8.0	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,173	10.14	4,073	4.5	5,883	6.5	N/A	N/A
Tier I Capital to Total Assets	9,173	7.59	4,836	4.0	6,045	5.0	9,672	8.0

Regulatory Enforecment Actions

Bank Consent Order. On April 16, 2010, the Bank agreed to the issuance of the Consent Order by the FDIC and the OFR (the "Consent Order"), which was amended on February 28, 2014. Under the Consent Order, the Bank is required to take certain measures to improve its capital position, reduce its level of problem assets, reduce its loan concentrations in certain portfolios, improve management practices and board supervision and assure that its reserve for loan losses is maintained at an appropriate level. The Consent Order requires the Bank to maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of 12%. At June 30, 2016, the Bank had a Tier 1 leverage ratio of 7.54%, and a total risk-based capital ratio of 12.14%.

See Footnote 13 to the Consolidated Financial Statements included in the Company's 2015 Form 10-K for additional information concerning the requirements of the Consent Order.

During the second quarter of 2016, the Bank was notified by the FDIC and the OFR that the Bank had not complied with certain of the terms of the Consent Order, and that the Bank continues to exhibit weaknesses in its level of capital, loan quality, earnings, liquidity and sensitivity to market risks. The FDIC and OFR also noted issues related to the management of the Bank, including issues with capital adequacy, risk management, loan concentrations, operating deficits, compliance with the Consent Order, weaknesses in the Bank's customer related due diligence, insider conflicts of interest and regulatory compliance. As a result, the FDIC and the OFR have indicated that they intend to pursue the implementation of a new consent order to address these issues.

(continued)

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (Unaudited)

Management believes that the Bank has made substantial progress in improving its financial condition through a significant reduction in non-performing assets and the receipt of capital increases from investors since the date of the original Consent Order. The Bank is also seeking to address the other issues raised by the FDIC and the OFR, although the Bank has been hampered by difficulties in raising capital due to the default under the Debenture and the limits placed on the Company and the Bank under the Consent Order and the Written Agreement. Management intends to continue its efforts to meet all of the conditions of the Consent Order, the Written Agreement and any amended Consent Order that may become effective in the future.

Company Written Agreement with Reserve Bank. On June 22, 2010, the Company and the Reserve Bank entered into a Written Agreement with respect to certain aspects of the operation and management of the Company The Written Agreement prohibits, without the prior approval of the Reserve Bank, the payment of dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities (including the Debenture), incurring, increasing or guaranteeing any debt, purchasing or redeeming any shares of stock, or appointing any new director or senior executive officer. Management believes that the Company is in substantial compliance with the requirements of the Written Agreement.

(10) ***Junior Subordinated Debenture.*** On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the "Debenture"). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.08% at June 30, 2016). The Debenture is redeemable in certain circumstances. The terms of the Debenture allow the Company to defer payments of interest on the Debenture by extending the interest payment period at any time during the term of the Debenture for up to twenty consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of June 30, 2016 totaled $1,047,700. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, the Company is not able to make these interest payments without the prior approval of the Federal Reserve Bank of Atlanta. Regulatory approval to pay accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the debenture. Although the Director tendered the purchase price for the Debenture in 2014, the Trustee has received conflicting directions and therefore on December 11, 2014, the Trustee commenced an Action for Interpleader in the United States District Court for the Southern District of New York. On August 31, 2015, the court held that the Trustee could not sell the Debenture to the Director because certain conditions and requirements set forth in the indenture for the Trust had not been fulfilled. The Director has continued his efforts to acquire the Debenture. To date the Trustee has not accelerated the outstanding balance of the debenture. The

Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

(11) ***Reverse Common Stock Split.*** Effective January 11, 2016 each ten shares of the Company’s common stock were converted into one share of common stock. (Loss) earnings per share for 2016 and 2015 has been adjusted to reflect the 1-for-10 reverse common stock split.

(12) ***Loan Loss Recovery.*** On January 6, 2016, the Bank completed a sale of judgement on a defaulted credit that resulted in a $1.8 million recovery of previously charged-off amounts to the Allowance for Loan and Lease Losses (“ALLL”). This increases the balance of the ALLL to approximately $4.2 million. On February 12, 2016, and amended May 6, 2016, pursuant to the terms and requirements of the Consent Order, Management submitted a written request to the FDIC for a partial reversal of the ALLL. As of this date, no response from the FDIC has been received.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2015 in the Annual Report on Form 10-K.

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

Regulatory Enforcement Actions

Bank Consent Order. On April 16, 2010, the Bank agreed to the issuance of the Consent Order by the FDIC and the OFR (the "Consent Order"), which was amended on February 28, 2014. Under the Consent Order, the Bank is required to take certain measures to improve its capital position, reduce its level of problem assets, reduce its loan concentrations in certain portfolios, improve management practices and board supervision and assure that its reserve for loan losses is maintained at an appropriate level. The Consent Order requires the Bank to maintain a Tier 1 leverage ratio of at least 8% and a total risk-based capital ratio of 12%. At June 30, 2016, the Bank had a Tier 1 leverage ratio of 7.54%, and a total risk-based capital ratio of 12.14%.

See Footnote 13 to the Consolidated Financial Statements included in the Company's 2015 Form 10-K for additional information concerning the requirements of the Consent Order.

During the second quarter of 2016, the Bank was notified by the FDIC and the OFR that the Bank had not complied with certain of the terms of the Consent Order, and that the Bank continues to exhibit weaknesses in its level of capital, loan quality, earnings, liquidity and sensitivity to market risks. The FDIC and OFR also noted issues related to the management of the Bank, including issues with capital adequacy, risk management, loan concentrations, operating deficits, compliance with the Consent Order, weaknesses in the Bank's customer related due diligence, insider conflicts of interest and regulatory compliance. As a result, the FDIC and the OFR have indicated that they intend to pursue the implementation of a new consent order to address these issues.

Management believes that the Bank has made substantial progress in improving its financial condition through a significant reduction in non-performing assets and the receipt of capital increases from investors since the date of the original Consent Order. The Bank is also seeking to address the other issues raised by the FDIC and the OFR, although the Bank has been hampered by difficulties in raising capital due to the default under the Debenture and the limits placed on the Company and the Bank under the Consent Order and the Written Agreement. Management intends to continue its efforts to meet all of the conditions of the Consent Order, the Written Agreement and any amended Consent Order that may become effective in the future.

Company Written Agreement with Reserve Bank. On June 22, 2010, the Company and the Reserve Bank entered into a Written Agreement with respect to certain aspects of the operation and management of the Company The Written Agreement prohibits, without the prior approval of the Reserve Bank, the payment of dividends, taking dividends or payments from the Bank, making any interest, principal or other distributions on trust preferred securities (including the Debenture), incurring, increasing or guaranteeing any debt, purchasing or redeeming any shares of stock, or appointing any new director or senior executive officer. Management believes that the Company is in substantial compliance with the requirements of the Written Agreement.

Capital Levels

Quantitative measures established by regulation and by the Consent Order to ensure capital adequacy require us to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital to risk-weighted assets and Tier 1 capital to average assets. As of June 30, 2016, the Bank met the minimum applicable capital adequacy requirements for Total Capital to Risk – Weighted Assets, but did not meet the requirement for Tier I Capital to Total Assets.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

The Bank's actual and required minimum capital ratios were as follows (in thousands):

Regulatory Capital Requirements

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions		Requirements of **Consent Order**	
	Amount	%	Amount	%	Amount	%	Amount	%
As of June 30, 2016:								
Total Capital to Risk-Weighted Assets	$10,438	12.14%	$ 6,881	8.0 %	$ 8,601	10.0 %	$10,321	12.0%
Tier I Capital to Risk-Weighted Assets	9,324	10.84	5,161	6.0	6,881	8.0	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,324	10.84	3,870	4.5	5,591	6.5	N/A	N/A
Tier I Capital to Total Assets	9,324	7.54	4,949	4.0	6,186	5.0	9,898	8.0
As of December 31, 2015:								
Total Capital to Risk-Weighted Assets	$10,319	11.40%	$ 7,240	8.0 %	$ 9,050	10.0 %	$10,860	12.0%
Tier I Capital to Risk-Weighted Assets	9,173	10.14	5,430	6.0	7,240	8.0	N/A	N/A
Common equity Tier I capital to Risk-Weighted Assets	9,173	10.14	4,073	4.5	5,883	6.5	N/A	N/A
Tier I Capital to Total Assets	9,173	7.59	4,836	4.0	6,045	5.0	9,672	8.0

Financial Condition at June 30, 2016 and December 31, 2015

Overview

The Bank's total assets decreased by $3.9 million to $123.6 million at June 30, 2016, from $127.5 million at December 31, 2015, primarily due to a reduction in total loans and total deposits. Total stockholders' equity increased approximately $700,000 at June 30, 2016 from $2,956,000 at December 31, 2015 to $3,660,000. The increase was due to an unrealized OCI gain of $224,000, the issuance of $221,000 of common stock as compensation to directors and the sale of $449,000 in common and preferred stock to investors, which offset the net loss of $331,000 for the six months ended June 30, 2016.

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

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015	Year Ended December 31, 2015
Average equity as a percentage of average assets	2.59 %	2.40 %	2.45 %
Equity to total assets at end of period	2.96 %	2.23 %	2.33 %
Return on average assets (1)	(0.54 %)	(.28)%	(.13)%
Return on average equity (1)	(20.86 %)	(11.55)%	(5.33)%
Noninterest expenses to average assets (1)	3.69 %	3.37 %	3.64 %

(1) Annualized for the six months ended June 30, 2016 and 2015.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

Liquidity and Sources of Funds

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

Deposits are our primary source of funds. In order to increase its core deposits, the Bank has priced its deposit rates competitively. The Bank will adjust rates on its deposits to attract or retain deposits as needed. Under the Consent Order, the interest rate that the Bank pays on its market area deposits is restricted. It is possible that the Bank could experience a decrease in deposit inflows, or the migration of current deposits to competitor institutions, if other institutions offer higher interest rates than those permitted to be offered by the Bank. Despite these yield limitations, we believe that we have the ability to adjust rates on our deposits to attract or retain deposits as needed.

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At June 30, 2016, the Bank had outstanding borrowings of $20.5 million, against its $31.7 million in established borrowing capacity with the FHLB. The Bank's borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. In 2010, the Bank obtained an available discount window credit line with the Federal Reserve Bank, currently $765,800. The Federal Reserve Bank line is subject to collateral requirements and must be repaid within 90 days; each advance is subject to prior Federal Reserve Bank consent. The Bank also has a $2.5 million line of credit with SunTrust and $600,000 line of credit with Servis First Bank. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

In the past, the Company, on an unconsolidated basis, relied on dividends from the Bank to fund its operating expenses, primarily expenses of being publicly held, and to make interest payments on the Company's junior subordinated debenture (the "Debenture"). Under the Consent Order, the Bank is currently unable to pay dividends to the Company without prior regulatory approval. Additionally, under the Written Agreement, the Company may not pay interest payments on the Debenture or dividends on the Company's common stock, incur any additional indebtedness at the Company level, or redeem the Company's common stock without the prior regulatory approval of the Federal Reserve Bank. Since January 2010, the Company has deferred interest payments on the Debenture, which has been in default since 2015. See "Junior Subordinated Debenture" below.

Off-Balance Sheet Arrangements

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

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

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. As of June 30, 2016, the Company had commitments to extend credit totaling $2.2 million.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

Junior Subordinated Debenture

On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the "Debenture"). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.08% at June 30, 2016). The Debenture is redeemable in certain circumstances. The terms of the Debenture allow the Company to defer payments of interest on the Debenture by extending the interest payment period at any time during the term of the Debenture for up to twenty consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of June 30, 2016 totaled $1,047,700. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, the Company is not able to make these interest payments without the prior approval of the Federal Reserve Bank of Atlanta. Regulatory approval to pay accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the debenture. Although the Director tendered the purchase price for the Debenture in 2014, the Trustee has received conflicting directions and therefore on December 11, 2014, the Trustee commenced an Action for Interpleader in the United States District Court for the Southern District of New York. On August 31, 2015, the court held that the Trustee could not sell the Debenture to the Director because certain conditions and requirements set forth in the indenture for the Trust had not been fulfilled. The Director has continued his efforts to acquire the Debenture. To date, the Trustee has not accelerated the outstanding balance of the debenture. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

In the event that the amounts due under the Debenture were accelerated, then the Trustee could undertake legal proceedings to obtain a judgment against the Company with respect to such amounts due under the Debenture. If this action were successful, then the Trustee could seek to effect a sale of the Bank in order to pay the amounts due under the Debenture.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

Results of Operations

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

	Three Months Ended June 30,					
	2016			2015		
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
	($ in thousands)					
Interest-earning assets:						
Loans	$85,141	$ 1,054	4.95 %	$83,361	$ 967	4.64 %
Securities	23,621	124	2.10	26,751	145	2.17
Other (1)	12,330	27	0.88	1,960	20	4.08
Total interest-earning assets/interest income	121,092	1,205	3.98	112,072	1,132	4.04
Cash and due from banks	846			6,729		
Premise and equipment	2,689			2,792		
Other	(905)			7,063		
Total assets	$123,722			$128,656		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	$23,925	30	.50	$25,080	31	0.49
Time deposits	62,744	156	.99	60,555	131	0.87
Borrowings (2)	27,575	95	1.38	28,159	59	0.84
Total interest-bearing liabilities/ interest expense	114,244	281	.98	113,794	221	0.78
Noninterest-bearing demand deposits	4,208			9,348		

Other liabilities	2,006				2,450			
Stockholders' equity	3,264				3,064			
Total liabilities and stockholders' equity	$123,722				$128,656			
Net interest income		$ 924				$ 911		
Interest-rate spread (3)			3.00	%			3.26	%
Net interest margin (4)			3.05	%			3.25	%
Ratio of average interest-earning assets to average interest-bearing liabilities	1.06				0.98			

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

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARIES

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

	Six Months Ended June 30, 2016			2015		
	Average Balance	Interest and Dividends	Average Yield/ Rate	Average Balance	Interest and Dividends	Average Yield/ Rate
			($ in thousands)			
Interest-earning assets:						
Loans	$83,750	$ 2,074	4.95%	$81,228	$ 1,854	4.56 %
Securities	23,792	251	2.11	27,357	307	2.24
Other (1)	11,537	50	0.87	1,905	38	3.99
Total interest-earning assets/interest income	119,079	2,375	3.99	110,490	2,199	3.98
Cash and due from banks	876			8,763		
Premise and equipment	2,693			2,808		
Other	(88)			5,196		
Total assets	$122,560			$127,257		
Interest-bearing liabilities:						
Savings, NOW and money-market deposits	$23,873	60	.50	$25,049	62	0.50
Time deposits	63,770	308	.97	59,528	254	0.86
Borrowings (2)	25,718	170	1.31	28,049	116	0.83
Total interest-bearing liabilities/ interest expense	113,361	538	.95	112,626	432	0.77
Noninterest-bearing demand deposits	3,855			9,252		
Other liabilities	2,170			2,333		
Stockholders' equity	3,174			3,048		
Total liabilities and stockholders' equity	$122,560			$127,257		
Net interest income		$ 1,837			$ 1,767	
Interest-rate spread (3)			3.04%			3.21 %
Net interest margin (4)			3.09%			3.20 %
	1.06			0.98		

Ratio of average interest-earning assets to average interest-bearing liabilities

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

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

Comparison of the Three-Month Periods Ended June 30, 2016 and 2015

General. Net loss for the three months ended June 30, 2016, was $(54,000) or $(0.05) per basic and diluted share compared to net earnings of $6,000 or $0.01 per basic and diluted share for the three months ended June 30, 2015. This decrease in net earnings was due to a combination a lower level of loan fees included in noninterest income and a higher professional fees and other non-interest expenses, which offset higher net interest income.

Interest Income. Interest income increased to $1.2 million for the three months ended June 30, 2016 from $1.1 million for the three months ended June 30, 2015 due primarily to an increase in interest earnings assets.

Interest Expense. Interest expense increased to $281,000 for the three months ended June 30, 2016 from $221,000 for the three months ended June 30, 2015, due to higher interest paid on deposits and borrowing during 2016.

Provision for Loan Losses. There was no provision for the three months ended June 30, 2016 or June 30, 2015. The provision for loan losses is charged to operations in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $4.2 million or 5.11% of loans outstanding at June 30, 2016, compared to $2.2 million, or 2.71% of loans outstanding at June 30, 2015. Management believes the balance in the allowance for loan losses at June 30, 2016 is adequate.

Noninterest Income. Total noninterest income decreased to $46,000 from $100,000 for the three months ended June 30, 2016, compared to the three months ended June 30, 2015. The decrease was due to nonrecurring loan fees recognized in 2015.

Noninterest Expenses. Total noninterest expenses remained at approximately $1.0 million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

Comparison of the Six-Month Periods Ended June 30, 2016 and 2015

General. Net loss for the six months ended June 30, 2016, was $(331,000) or $(0.33) loss per basic and diluted share compared to a net loss of $(176,000) or $(0.19) loss per basic and diluted share for the three months ended June 30, 2015. The increase in net loss was due to a combination of higher professional fees and other non-interest expenses and a lower level of loan fees included in noninterest income, which offset higher net interest income.

Interest Income. Interest income increased to $2,375,000 for the six months ended June 30, 2016 from $2,199,000 for the six months ended June 30, 2015, primarily due to an increase in interest earnings assets.

Interest Expense. Interest expense on deposits and borrowings increased $538,000 for the six months ended June 30, 2016 from $432,000 for the six months ended June 30, 2015. Interest expense increased primarily due to higher interest paid on deposits and borrowing during 2016.

Provision for Loan Losses. There was no provision for the six months ended June 30, 2016 or 2015. The provision for loan losses is charged to operations in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled $4.2 million or 5.11% of loans outstanding at June 30, 2016, compared to $2.2 million, or 2.71% of loans outstanding at June 30, 2015. Management believes the balance in the allowance for loan losses at June 30, 2016 is adequate.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

Noninterest Income. Total noninterest income decreased to $93,000 from $200,000 for the six months ended June 30, 2016, compared to the six months ended June 30, 2015 primarily due to nonrecurring loan fees recognized in 2015.

Noninterest Expenses. Total noninterest expenses increased to $2,261,000 for the six months ended June 30, 2016 compared to $2,143,000 for the six months ended June 30, 2015, primarily due to increased professional fees.

Item 4. Controls and Procedures

The Company's management evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report, and, based on this evaluation, the Principal Executive Officer and Principal Financial Officer concluded that these disclosure controls and procedures are effective.

There have been no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2016, that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART II. OTHER INFORMATION

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

Non-Employee Director Share Issuances

On June 30, 2016, the Company agreed to issue 2,968 shares of its common stock to the Company's non-employee directors under the Company's 2011 Equity Incentive Plan and the Company's Non-Employee Director Compensation Plan (the "Director Compensation Plan") for attendance fees at board meetings of the Company during the second quarter of 2016. Under the Director Compensation Plan, which became effective on January 1, 2012, fees for attendance at board and committee meetings are payable 75% in shares of common stock and 25% in cash on a quarterly basis. The shares were issued at the price of $3.75, the fair market value of the shares on the date of issuance. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

Other Significant Share Issuance

During the quarter ended June 30, 2016, the Company agreed to issue 92,980 shares to an individual investor at the price of $4.04 per share, the fair market value of the shares agreed upon for the purchase. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

During the quarter ended June 30, 2016, the Company agreed to issue 36,118 shares as compensation for legal services at the price of $3.53 per share, at 85% of the 30-day weighted average market price of the shares on the date of issuance. The issuance of the shares was exempt from registration pursuant to Section 4(2) of the Securities Act as a transaction by an issuer not involving a public offering.

Item 3. Defaults on Senior Securities

Junior Subordinated Debenture

On September 30, 2004, the Company issued a $5,155,000 junior subordinated debenture to an unconsolidated subsidiary (the "Debenture"). The Debenture has a term of thirty years. The interest rate was fixed at 6.4% for the first five years, and thereafter, the coupon rate floats quarterly at the three-month LIBOR rate plus 2.45% (3.08% at June 30, 2016). The Debenture is redeemable in certain circumstances. The terms of the Debenture allow the Company to defer payments of interest on the Debenture by extending the interest payment period at any time during the term of the Debenture for up to twenty consecutive quarterly periods. Beginning in 2010, the Company exercised its right to defer payment of interest on the Debenture. Interest payments deferred as of June 30, 2016 totaled $1,047,700. The Company has deferred interest payments with respect to the Debenture for the maximum allowable twenty consecutive quarterly payments. The holder of the Debenture can accelerate the $5,155,000 principal balance as a result of this default. Under the Written Agreement, the Company is not able to make these interest payments without the prior approval of the Federal Reserve Bank of Atlanta. Regulatory approval to pay accrued and unpaid interest has been denied.

A Director of the Company has offered to purchase the Debenture and this offer has been approved by certain equity owners of the Trust that holds the Debenture. The Director has also agreed to enter into a forbearance agreement with the Company with respect to payments due under the Debenture upon consummation of the Director's purchase of the debenture. Although the Director tendered the purchase price for the Debenture in 2014, the Trustee has received conflicting directions and therefore on December 11, 2014, the Trustee commenced an Action for Interpleader in the United States District Court for the Southern District of New York. On August 31, 2015, the court held that the Trustee could not sell the Debenture to the Director because certain conditions and requirements set forth in the indenture for the Trust had not been fulfilled. The Director has continued his efforts to acquire the Debenture. To date, the Trustee has not accelerated the outstanding balance of the debenture. The Company continues to pursue mechanisms for paying the accrued interest, such as raising additional capital.

In the event that the amounts due under the Debenture were accelerated, then the Trustee could undertake legal proceedings to obtain a judgment against the Company with respect to such amounts due under the Debenture. If this action were successful, then the Trustee could seek to effect a sale of the Bank in order to pay the amounts due under the Debenture.

Item 6. Exhibits

The exhibits contained in the Exhibit Index following the signature page are filed with or incorporated by reference into this report.

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

SIGNATURES

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

		OPTIMUMBANK HOLDINGS, INC. (Registrant)
Date:	August 15, 2016	By: /s/ Timothy Terry Timothy Terry, Principal Executive Officer
		By: /s/ James Odza James Odza, Chief Financial Officer

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act
31.2	Certification of Principal Executive and Principal Financial Officer under 18 U.S.C. Section 1350
32.1	Certification of Principal Executive Officer
32.2	Certification of Chief Financial Officer

OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

Exhibit No.	Description
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document