

OptimumBank Holdings, Inc.
Form 10-Q
November 14, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from to

Commission file number 000-50755

OPTIMUMBANK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

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Florida **000-50755**
(State or other jurisdiction of **(IRS Employer**
incorporation or organization) **Identification No.)**
2477 East Commercial Boulevard, Fort Lauderdale, FL 33308

(Address of principal executive offices)

954-776-2332

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 21,821,608 shares of Common Stock, \$.01 par value, issued and outstanding as of November 9, 2011

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|--|--------------------------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 850 | \$ 1,027 |
| Interest-bearing deposits with banks | 119 | 186 |
| Federal funds sold | 19,729 | 13,154 |
| Total cash and cash equivalents | 20,698 | 14,367 |
| Securities available for sale | 36,541 | 0 |
| Securities held to maturity (fair value of \$100 and \$48,839) | 100 | 51,057 |
| Loans, net of allowance for loan losses of \$3,137 and \$3,703 | 95,756 | 113,542 |
| Federal Home Loan Bank stock | 2,426 | 3,173 |
| Premises and equipment, net | 2,707 | 2,796 |
| Foreclosed real estate, net | 7,218 | 3,215 |
| Accrued interest receivable | 543 | 644 |
| Income taxes receivable | 772 | 772 |
| Other assets | 366 | 739 |
| Total assets | \$ 167,127 | \$ 190,305 |
| Liabilities and Stockholders (Deficit) Equity | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 473 | 309 |
| Savings, NOW and money-market deposits | 33,458 | 36,654 |
| Time deposits | 95,293 | 111,275 |
| Total deposits | 129,224 | 148,238 |
| Federal Home Loan Bank advances | 31,700 | 31,700 |
| Junior subordinated debenture | 5,155 | 5,155 |
| Advanced payment by borrowers for taxes and insurance | 1,265 | 806 |
| Official checks | 258 | 815 |
| Other liabilities | 1,234 | 756 |
| Total liabilities | 168,836 | 187,470 |

Stockholders (deficit) equity:

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| | | |
|---|------------|------------|
| Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding | 0 | 0 |
| Common stock, \$.01 par value; 1,500,000 shares authorized, 819,358 shares issued and outstanding | 8 | 8 |
| Additional paid-in capital | 19,071 | 19,071 |
| Accumulated deficit | (19,934) | (16,244) |
| Accumulated other comprehensive loss | (854) | 0 |
| | | |
| Total stockholders (deficit) equity | (1,709) | 2,835 |
| | | |
| Total liabilities and stockholders (deficit) equity | \$ 167,127 | \$ 190,305 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Operations (Unaudited)**

(in thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans | \$ 1,121 | \$ 1,493 | \$ 3,607 | \$ 4,982 |
| Securities | 378 | 474 | 1,407 | 1,898 |
| Other | 17 | 27 | 46 | 60 |
| Total interest income | 1,516 | 1,994 | 5,060 | 6,940 |
| Interest expense: | | | | |
| Deposits | 441 | 725 | 1,489 | 2,181 |
| Borrowings | 389 | 391 | 1,153 | 1,695 |
| Total interest expense | 830 | 1,116 | 2,642 | 3,876 |
| Net interest income | 686 | 878 | 2,418 | 3,064 |
| Provision (credit) for loan losses | (243) | 1,006 | 652 | 3,199 |
| Net interest income (expense) after provision (credit) for loan losses | 929 | (128) | 1,766 | (135) |
| Noninterest income: | | | | |
| Service charges and fees | 9 | 14 | 26 | 31 |
| Gain on sale of securities | 0 | 0 | 153 | 1,350 |
| Other | 1 | 1 | 53 | 5 |
| Total noninterest income | 10 | 15 | 232 | 1,386 |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | 444 | 479 | 1,380 | 1,389 |
| Occupancy and equipment | 132 | 147 | 399 | 449 |
| Data processing | 45 | 54 | 147 | 151 |
| Professional fees | 417 | 336 | 1,267 | 1,119 |
| Insurance | 99 | 47 | 326 | 74 |
| Stationary and supplies | 9 | 10 | 26 | 33 |
| Foreclosed real estate | 81 | 153 | 1,063 | 456 |
| Regulatory assessment | 163 | 123 | 545 | 442 |
| Other | 112 | 77 | 535 | 208 |
| Loss on extinguishment of debt | 0 | 0 | 0 | 3,699 |
| Total noninterest expenses | 1,502 | 1,426 | 5,688 | 8,020 |

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| | | | | |
|----------------------------|----------|------------|------------|------------|
| Net loss | \$ (563) | \$ (1,539) | \$ (3,690) | \$ (6,769) |
| Net loss per share: | | | | |
| Basic | \$ (.69) | \$ (1.88) | \$ (4.50) | \$ (8.26) |
| Diluted | \$ (.69) | \$ (1.88) | \$ (4.50) | \$ (8.26) |
| Dividends per share | \$ 0 | \$ 0 | \$ 0 | \$ 0 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Stockholders (Deficit) Equity****Nine Months Ended September 30, 2011 and 2010****(Dollars in thousands)**

| | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders Equity |
|--|--------------------------------|--------------------------------|---|--------------------------------|---|--|
| Balance at December 31, 2009 | 3,276,842 | \$ 33 | 19,046 | (7,791) | 0 | 11,288 |
| Net loss for the nine months ended September 30, 2010 (unaudited) | 0 | 0 | 0 | (6,769) | 0 | (6,769) |
| Balance at September 30, 2010 (unaudited) | 3,276,842 | \$ 33 | 19,046 | (14,560) | 0 | 4,519 |
| Balance at December 31, 2010 | 819,358 | \$ 8 | 19,071 | (16,244) | 0 | 2,835 |
| Comprehensive loss: | | | | | | |
| Net loss for the nine months ended September 30, 2011 (unaudited) | 0 | 0 | 0 | (3,690) | 0 | (3,690) |
| Net change in unrealized loss on securities available for sale (unaudited) | 0 | 0 | 0 | 0 | (854) | (854) |
| Comprehensive loss (unaudited) | 0 | 0 | 0 | 0 | 0 | (4,544) |
| Balance at September 30, 2011 (unaudited) | 819,358 | \$ 8 | 19,071 | (19,934) | (854) | (1,709) |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,690) | \$ (6,769) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 94 | 122 |
| Provision for loan losses | 652 | 3,199 |
| Deferred income taxes | 0 | 772 |
| Decrease in income tax receivable | 0 | 2,456 |
| Gain on sale of securities | (153) | (1,350) |
| Loss on early extinguishment of debt | 0 | 3,699 |
| Net amortization of fees, premiums and discounts | 93 | 4 |
| Decrease (increase) in other assets | 373 | (331) |
| Loss on sale of foreclosed real estate | 186 | 235 |
| Write-down of foreclosed real estate | 704 | 126 |
| Decrease in accrued interest receivable | 101 | 334 |
| (Decrease) increase in official checks and other liabilities | (79) | 236 |
| | | |
| Net cash (used in) provided by operating activities | (1,719) | 2,733 |
| | | |
| Cash flows from investing activities: | | |
| Purchases of securities held to maturity | (5,048) | (15,266) |
| Principal repayments of securities held to maturity | 5,428 | 7,613 |
| Principal repayments of securities available for sale | 2,260 | 0 |
| Proceeds from sale of security available for sale | 11,028 | 45,434 |
| Net decrease in loans | 8,492 | 9,825 |
| Purchase of premises and equipment | (5) | (10) |
| Proceeds from sale of foreclosed real estate | 3,703 | 1,959 |
| Redemption of Federal Home Loan Bank stock | 747 | 254 |
| | | |
| Net cash provided by investing activities | 26,605 | 49,809 |
| | | |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (19,014) | 6,446 |
| Net decrease in other borrowings | 0 | (44,764) |
| Increase in advance payments by borrowers for taxes and insurance | 459 | 668 |
| Repayment of Federal Home Loan Bank advances | 0 | (26,735) |
| | | |
| Net cash used in financing activities | (18,555) | (64,385) |
| | | |
| Net increase (decrease) in cash and cash equivalents | 6,331 | (11,843) |
| Cash and cash equivalents at beginning of the period | 14,367 | 36,784 |

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| | | |
|--|-----------|-----------|
| Cash and cash equivalents at end of the period | \$ 20,698 | \$ 24,941 |
|--|-----------|-----------|

(continued)

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

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2011 | 2010 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 2,535 | \$ 3,964 |
| Income taxes | \$ 0 | \$ 0 |
| Noncash investing and financing activities: | | |
| Change in accumulated other comprehensive loss, net change in unrealized loss on security available for sale | \$ 21 | \$ 0 |
| Transfer of securities held to maturity to available for sale | \$ 50,534 | \$ 0 |
| Loans transferred to foreclosed real estate | \$ 8,596 | \$ 533 |
| Loan made in connection with sale of foreclosed real estate | \$ 0 | \$ 485 |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

(1) **General.** OptimumBank Holdings, Inc. (the Holding Company) is a one-bank holding company and owns 100% of OptimumBank (the Bank), a state (Florida)-chartered commercial bank. The Bank s wholly-owned subsidiaries are OB Real Estate Management, LLC, OB Real Estate Holdings, LLC and OB Real Estate Holding 1503, LLC, all of which were formed in 2009, OB Real Estate Holdings 1695, OB Real Estate Holdings 1669, OB Real Estate Holdings 1645, OB Real Estate Holdings 1620 and OB Real Estate Holdings 1565, all formed in 2010, and OB Real Estate Holdings 1443 and OB Real Estate Holdings 1616, OB Real Estate Holdings 1617, OB Real Estate Holdings 1710, OB Real Estate Holdings 1596, OB Real Estate Holdings 1636 formed in 2011. The Holding Company s only business is the operation of the Bank and its subsidiaries (collectively, the Company). The Bank s deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank offers a variety of community banking services to individual and corporate customers through its three banking offices located in Broward County, Florida. OB Real Estate Management, LLC is primarily engaged in managing foreclosed real estate. This subsidiary had no activity in 2011 and 2010. All other subsidiaries are primarily engaged in holding and disposing of foreclosed real estate.

In the opinion of the management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at September 30, 2011, and the results of operations for the three- and nine-month periods ended September 30, 2011 and 2010, and cash flows for the nine-months periods ended September 30, 2011 and 2010. The results of operations for the three- and nine-months ended September 30, 2011, are not necessarily indicative of the results to be expected for the full year.

Common Stock Offering and Purchase Agreement. The Company completed a private placement offering of its common stock on October 27, 2011, and sold 21,002,250 shares of common stock for net proceeds of \$8.3 million. All of the proceeds were invested in the Bank. Had this transaction been consummated as of September 30, 2011, the Bank s Tier 1 leverage capital ratio and total risk based capital ratios would have been 7.36% and 11.29%, respectively. As discussed in Note 9, the Bank is required to maintain a Tier 1 leverage ratio of 8% and a total risk based capital ratio of 12% under the terms of the Consent Order issued by the FDIC and the Florida Office of Financial Regulation (OFR).

The Company also entered into a binding stock purchase agreement with Company director Moishe Gubin (Gubin) on October 25, 2011, under which Gubin has agreed to purchase, subject to certain conditions, for \$2.7 million in cash, 6,750,000 newly issued shares of common stock of the Company. The closing of this transaction is subject to regulatory approval from the Federal Reserve Board and the OFR. The stock purchase agreement may be terminated by the Company or Gubin if the closing does not occur by February 28, 2012, but not by either party whose failure to perform any obligations under the agreement required to be performed on or prior to such date has been the cause of, or results in, the failure of the transaction to close on or before such date.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited)

If the transaction with Gubin is consummated, it is anticipated that substantially all the proceeds would be invested in the Bank and the Bank would have total new capital of approximately \$11 million. With \$11 million in new capital, the Bank's Tier 1 leverage and total risk based capital ratios at September 30, 2011, on a pro forma basis, would be 9.00% and 13.48%, respectively. These ratios would exceed the corresponding 8% and 12% ratios imposed under the Consent Order. There can be no assurance, however, that the transaction with Gubin will be consummated, or that the Company will be able to raise sufficient capital in the transaction to meet the Bank's capital requirements under the Consent Order.

Registration Rights. In connection with the private placement offering and the transaction with Gubin, the Bank has agreed to grant each purchaser of common stock certain registration rights. The Company has agreed to file a registration statement on Form S-3 as soon as practicable after the closing of the private placement (or in the case of the stock purchase by Gubin, the closing of the stock purchase), and to use reasonable best efforts to make such registration statement become effective. The Company is required to maintain this registration statement continuously in effect until all such shares have been sold or become eligible for sale without restrictions under Rule 144 promulgated under the Securities Act. The registration rights are subject to the right of the Company to delay registration to avoid disclosure of material nonpublic information. The holder of registrable securities must comply with certain standard provisions facilitating the filing and effectiveness of the registration statement as well.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

Comprehensive Loss. Generally accepted accounting principles generally requires that recognized revenue, expenses, gains and losses be included in net loss. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items along with net loss, are components of comprehensive loss. The only component of other comprehensive loss is the net change in the unrealized loss on the securities available for sale.

Income Taxes. During the year ended December 31, 2009, the Company assessed its earnings history and trend over the past year and its estimate of future earnings, and determined that it is more likely than not that the deferred tax asset will not be realized in the near term. Accordingly, a valuation allowance was recorded against the net deferred tax asset for the amount not expected to be realized in the future. Based on the available evidence in 2010 and 2011, the Company determined that it is still more likely than not that the deferred tax asset will not be realized in the near term. Accordingly, the valuation allowance was increased in 2010 and 2011 to offset the increase in the net deferred tax asset.

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(1) General, Continued.

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

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The new disclosures will require significantly more information about credit quality in a financial institution s loan portfolio. This statement addresses only disclosures and does not change recognition or measurement of the allowance. For public entities, the disclosures as of the end of a reporting period was effective for interim and annual reporting periods ending on December 31, 2010. The disclosures about activity that occurs during a reporting period was effective for interim and annual reporting periods beginning on or after January 1, 2011. The adoption of the ASU did not have a material impact on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310) A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This amends the guidance for troubled debt restructurings. The guidance clarifies the guidance on a creditor s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. For public entities, the amendments are effective for first interim or annual period beginning on or after June 15, 2011 and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of the ASU is not expected to have a material impact on the Company s consolidated financial statements.

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

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| At September 30, 2011: | | | | |
| Securities Available for Sale- | | | | |
| Mortgage-backed securities | \$ 37,395 | \$ 288 | \$ (1,142) | \$ 36,541 |
| Security Held to Maturity- | | | | |
| State of Israel Bond | \$ 100 | \$ 0 | \$ 0 | \$ 100 |
| At December 31, 2010: | | | | |
| Securities Held to Maturity: | | | | |
| Mortgage-backed securities | \$ 50,957 | \$ 130 | \$ (2,348) | \$ 48,739 |
| State of Israel bond | 100 | 0 | 0 | 100 |
| | \$ 51,057 | \$ 130 | \$ (2,348) | \$ 48,839 |

In June 2011, the Company transferred securities with a book value of approximately \$50.5 million from the held to maturity category to the available for sale category. The fair value of the securities was \$49.8 million resulting in unrealized losses of approximately \$0.7 million. The net unrealized loss was recorded in accumulated other comprehensive loss. Due to this transfer, the Company will be prohibited from classifying securities as held to maturity for a period of two years. Subsequent to the transfer, the Company sold securities available for sale for gross proceeds of \$11.0 million and recognized a gross gain of \$0.2 million from the sale of these securities.

During the first quarter of 2010, the Company sold twenty-two securities in order to downsize and deleverage its balance sheet. This action was taken in an effort to comply with a significant increase in the regulatory capital requirements imposed on the Bank under a Consent Order issued by the FDIC and OFR (see Note 9). The securities were sold for gross proceeds of \$45.4 million. A gain of \$1.3 million was recognized from the sale of these securities.

Securities with gross unrealized losses at September 30, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

| | Less Than Twelve Months | | Over Twelve Months | |
|---------------------------------------|-------------------------------|---------------|-------------------------------|---------------|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| Securities Available for Sale- | | | | |
| Mortgage-backed securities | \$ 13 | \$ 997 | \$ 1,129 | \$ 15,111 |

(continued)

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

- (2) **Securities, Continued.** Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. A security is impaired if the fair value is less than its carrying value at the financial statement date. When a security is impaired, the Company determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment (OTTI) losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company's position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

In evaluating mortgage-backed securities with unrealized losses greater than twelve months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. Based on management's analysis, there was no OTTI charge during 2010 or 2011. In 2009, an OTTI charge of \$179,000 was recorded on five securities with a carrying value of \$6.0 million at September 30, 2011. There have been no subsequent OTTI charges related to these securities since 2009.

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

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

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

| | At September 30, 2011 | At December 31, 2010 |
|--|--------------------------|-------------------------|
| Residential real estate | \$ 34,131 | \$ 40,130 |
| Multi-family real estate | 4,138 | 4,213 |
| Commercial real estate | 49,113 | 55,119 |
| Land and construction | 11,091 | 17,292 |
| Consumer | 326 | 358 |
| | | |
| Total loans | 98,799 | 117,112 |
| Add (deduct): | | |
| Net deferred loan fees, costs and premiums | 94 | 134 |
| Loan discounts | 0 | (1) |
| Allowance for loan losses | (3,137) | (3,703) |
| | | |
| Loans, net | \$ 95,756 | \$ 113,542 |

An analysis of the change in the allowance for loan losses for the three and nine-months ended September 30, 2011 and 2010 follows (in thousands):

| | Residential Real Estate | Multi-Family Real Estate | Commercial Real Estate | Land and Construction | Consumer | Total | 2010 |
|--|-------------------------------|--------------------------------|------------------------------|-----------------------------|----------|----------|----------|
| Three Months Ended September 30, 2011: | | | | | | | |
| Beginning balance | \$ 1,093 | \$ 308 | \$ 1,400 | \$ 197 | \$ 77 | \$ 3,075 | \$ 3,492 |
| Provision for loan losses | (644) | 135 | 374 | (117) | 9 | (243) | 1,006 |
| Charge-offs | 0 | 0 | (150) | 0 | 0 | (150) | (1,268) |
| Recoveries | 328 | 2 | 0 | 121 | 4 | 455 | 14 |
| | | | | | | | |
| Ending balance | \$ 777 | \$ 445 | \$ 1,624 | \$ 201 | \$ 90 | \$ 3,137 | \$ 3,244 |
| Nine Months Ended September 30, 2011: | | | | | | | |
| Beginning balance | \$ 1,285 | \$ 282 | \$ 1,542 | \$ 514 | \$ 80 | \$ 3,703 | \$ 9,363 |
| Provision (credit) for loan losses | (562) | 158 | 284 | 772 | 0 | 652 | 3,199 |

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| | | | | | | | |
|----------------|--------|--------|----------|---------|-------|----------|----------|
| Charge-offs | (308) | 0 | (202) | (1,230) | 0 | (1,740) | (9,422) |
| Recoveries | 362 | 5 | 0 | 145 | 10 | 522 | 104 |
| Ending balance | \$ 777 | \$ 445 | \$ 1,624 | \$ 201 | \$ 90 | \$ 3,137 | \$ 3,244 |

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

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

Real Estate Mortgage Loans. Real estate mortgage loans are typically segmented into four categories: Residential real estate, Multi-family real estate, Commercial real estate, and Land and Construction. Residential real estate loans are underwritten in accordance with policies set forth and approved by the Board of Directors (the Board), including repayment capacity and source, value of the underlying property, credit history and stability. Multi-family and commercial real estate loans are secured by the subject property and are underwritten based upon standards set forth in the policies approved by the Company's Board. Such standards include, among other factors, loan to value limits, cash flow coverage and general creditworthiness of the obligors. Construction loans to borrowers are to finance the construction of owner occupied and leased properties. These loans are categorized as construction loans during the construction period, later converting to commercial or residential real estate loans after the construction is complete and amortization of the loan begins. Real estate development and construction loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Real estate development and construction loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Development and construction loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Consumer Loans. Consumer loans are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. Also offered are home improvement loans, lines of credit, personal loans, and deposit account collateralized loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(continued)

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

- (3) *Loans, Continued.* The balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2011 and December 31, 2010 follows (in thousands):

| | At September 30, 2011 | | | | | |
|--|-------------------------------|--------------------------------|------------------------------|-----------------------------|----------|-----------|
| | Residential Real Estate | Multi-Family Real Estate | Commercial Real Estate | Land and Construction | Consumer | Total |
| Individually evaluated for impairment: | | | | | | |
| Recorded investment | \$ 9,226 | \$ 0 | \$ 16,807 | \$ 6,409 | \$ 216 | \$ 32,658 |
| Balance in allowance for loan losses | \$ 0 | \$ 0 | \$ 11 | \$ 17 | \$ 0 | \$ 28 |
| Collectively evaluated for impairment: | | | | | | |
| Recorded investment | \$ 24,905 | \$ 4,138 | \$ 32,306 | \$ 4,682 | \$ 110 | \$ 66,141 |
| Balance in allowance for loan losses | \$ 777 | \$ 445 | \$ 1,613 | \$ 184 | \$ 90 | \$ 3,109 |
| | | | | | | |
| | At December 31, 2010 | | | | | |
| | Residential Real Estate | Multi-Family Real Estate | Commercial Real Estate | Land and Construction | Consumer | Total |
| Individually evaluated for impairment: | | | | | | |
| Recorded investment | \$ 12,608 | \$ 0 | \$ 21,215 | \$ 10,649 | \$ 249 | \$ 44,721 |
| Balance in allowance for loan losses | \$ 0 | \$ 0 | \$ 11 | \$ 75 | \$ 0 | \$ 86 |
| Collectively evaluated for impairment: | | | | | | |
| Recorded investment | \$ 27,522 | \$ 4,213 | \$ 33,904 | \$ 6,643 | \$ 109 | \$ 72,391 |
| Balance in allowance for loan losses | \$ 1,285 | \$ 282 | \$ 1,531 | \$ 439 | \$ 80 | \$ 3,617 |

(continued)

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

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

| | Pass | OLEM (Other Loans Especially Mentioned) | Substandard | Doubtful | Loss | Total |
|--------------------------------------|------------------|---|------------------|-------------|-------------|------------------|
| At September 30, 2011: | | | | | | |
| Residential real estate: | | | | | | |
| Closed-end mortgages first mortgages | \$ 20,965 | \$ 3,687 | \$ 6,308 | \$ 0 | \$ 0 | \$ 30,960 |
| Closed-end second mortgages | 3,171 | 0 | 0 | 0 | 0 | 3,171 |
| Total residential real estate | 24,136 | 3,687 | 6,308 | 0 | 0 | 34,131 |
| Multi-family real estate | 4,138 | 0 | 0 | 0 | 0 | 4,138 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 11,821 | 2,022 | 369 | 0 | 0 | 14,212 |
| Non-owner-occupied | 16,827 | 2,809 | 15,265 | 0 | 0 | 34,901 |
| Total commercial real estate | 28,648 | 4,831 | 15,634 | 0 | 0 | 49,113 |
| Land and construction | 4,632 | 50 | 6,409 | 0 | 0 | 11,091 |
| Consumer: | | | | | | |
| Non-real estate secured | 0 | 69 | 150 | 0 | 0 | 219 |
| Real estate secured | 107 | 0 | 0 | 0 | 0 | 107 |
| Total consumer | 107 | 69 | 150 | 0 | 0 | 326 |
| Total | \$ 61,661 | \$ 8,637 | \$ 28,501 | \$ 0 | \$ 0 | \$ 98,799 |

At December 31, 2010:

| | | | | | | |
|--------------------------------------|---------------|--------------|--------------|----------|----------|---------------|
| Residential real estate: | | | | | | |
| Closed-end mortgages first mortgages | \$ 23,542 | \$ 3,697 | \$ 9,691 | \$ 0 | \$ 0 | \$ 36,930 |
| Closed-end second mortgages | 3,200 | 0 | 0 | 0 | 0 | 3,200 |
| Total residential real estate | 26,742 | 3,697 | 9,691 | 0 | 0 | 40,130 |
| Multi-family real estate | 4,213 | 0 | 0 | 0 | 0 | 4,213 |

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| | | | | | | |
|------------------------------|-----------|-----------|-----------|------|------|------------|
| Commercial real estate: | | | | | | |
| Owner-occupied | 12,960 | 1,238 | 1,837 | 0 | 0 | 16,035 |
| Non-owner-occupied | 18,042 | 3,638 | 17,404 | 0 | 0 | 39,084 |
| | | | | | | |
| Total commercial real estate | 31,002 | 4,876 | 19,241 | 0 | 0 | 55,119 |
| | | | | | | |
| Land and construction | 4,976 | 1,667 | 10,649 | 0 | 0 | 17,292 |
| | | | | | | |
| Consumer: | | | | | | |
| Non-real estate secured | 99 | 0 | 151 | 0 | 0 | 250 |
| Real estate secured | 108 | 0 | 0 | 0 | 0 | 108 |
| | | | | | | |
| Total consumer | 207 | 0 | 151 | 0 | 0 | 358 |
| | | | | | | |
| Total | \$ 67,140 | \$ 10,240 | \$ 39,732 | \$ 0 | \$ 0 | \$ 117,112 |

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

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

Pass a Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary. These are loans that conform in all aspects to bank policy and regulatory requirements, and no repayment risk has been identified.

OLEM (Other Loans Especially Mentioned) an Other Loan Especially Mentioned has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date.

Substandard a Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful a loan classified Doubtful has all the weaknesses inherent in one classified Substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company fully charges off any loan classified as Doubtful.

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

(continued)

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued**(3) *Loans, Continued.* Age analysis of past-due loans is as follows (in thousands):

| | Accruing Loans Greater Than 90 Days Past Due | | | Total Past Due | Current | Nonaccrual Loans | Total 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 September 30, 2011: | | | | | | | |
| Residential real estate: | | | | | | | |
| Closed-end first mortgages | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 24,652 | \$ 6,308 | \$ 30,960 |
| Closed-end second mortgages | 0 | 0 | 0 | 0 | 3,171 | 0 | 3,171 |
| Subtotal | 0 | 0 | 0 | 0 | 27,823 | 6,308 | 34,131 |
| Multi-family real estate | 0 | 0 | 0 | 0 | 4,138 | 0 | 4,138 |
| Commercial real estate: | | | | | | | |
| Owner-occupied | 0 | 0 | 0 | 0 | 13,843 | 369 | 14,212 |
| Non-owner-occupied | 1,174 | 0 | 0 | 1,174 | 18,462 | 15,265 | 34,901 |
| Subtotal | 1,174 | 0 | 0 | 1,174 | 32,305 | 15,634 | 49,113 |
| Land and construction | 0 | 0 | 0 | 0 | 4,682 | 6,409 | 11,091 |
| Consumer: | | | | | | | |
| Non-real estate secured | 0 | 0 | 0 | 0 | 69 | 150 | 219 |
| Real estate secured | 0 | 0 | 0 | 0 | 107 | 0 | 107 |
| Subtotal | 0 | 0 | 0 | 0 | 176 | 150 | 326 |
| Total | \$ 1,174 | \$ 0 | \$ 0 | \$ 1,174 | \$ 69,124 | \$ 28,501 | \$ 98,799 |

At December 31, 2010:

| | | | | | | | |
|-----------------------------|------|------|------|------|-----------|----------|-----------|
| Residential real estate: | | | | | | | |
| Closed-end first mortgages | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 27,239 | \$ 9,691 | \$ 36,930 |
| Closed-end second mortgages | 0 | 0 | 0 | 0 | 3,200 | 0 | 3,200 |
| Subtotal | 0 | 0 | 0 | 0 | 30,439 | 9,691 | 40,130 |
| Multi-family real estate | 0 | 0 | 0 | 0 | 4,213 | 0 | 4,213 |

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| | | | | | | | |
|-------------------------|----------|------|------|----------|-----------|-----------|------------|
| Commercial real estate: | | | | | | | |
| Owner-occupied | 0 | 0 | 0 | 0 | 14,198 | 1,837 | 16,035 |
| Non-owner-occupied | 3,195 | 0 | 0 | 3,195 | 20,881 | 15,008 | 39,084 |
| Subtotal | 3,195 | 0 | 0 | 3,195 | 35,079 | 16,845 | 55,119 |
| Land and construction | 0 | 0 | 0 | 0 | 9,449 | 7,843 | 17,292 |
| Consumer: | | | | | | | |
| Non-real estate secured | 99 | 0 | 0 | 99 | 0 | 151 | 250 |
| Real estate secured | 0 | 0 | 0 | 0 | 108 | 0 | 108 |
| Subtotal | 99 | 0 | 0 | 99 | 108 | 151 | 358 |
| Total | \$ 3,294 | \$ 0 | \$ 0 | \$ 3,294 | \$ 79,288 | \$ 34,530 | \$ 117,112 |

(continued)

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

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

| | At September 30, 2011 | | | At December 31, 2010 | | |
|-------------------------------------|-----------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment | Unpaid Principal Balance | Related Allowance |
| With no related allowance recorded: | | | | | | |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | \$ 9,226 | \$ 10,687 | \$ 0 | \$ 12,608 | \$ 14,272 | \$ 0 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 369 | 376 | 0 | 1,837 | 1,857 | 0 |
| Non-owner-occupied | 15,264 | 17,640 | 0 | 18,204 | 20,466 | 0 |
| Land and construction | 6,409 | 10,030 | 0 | 9,980 | 15,018 | 0 |
| Consumer- | | | | | | |
| Non-real estate secured | 216 | 219 | 0 | 249 | 249 | 0 |
| With an allowance recorded: | | | | | | |
| Commercial real estate- | | | | | | |
| Non-owner-occupied | 1,174 | 1,174 | 11 | 1,174 | 1,174 | 11 |
| Land and construction | 0 | 0 | 0 | 669 | 669 | 75 |
| Total: | | | | | | |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | \$ 9,226 | \$ 10,687 | \$ 0 | \$ 12,608 | \$ 14,272 | \$ 0 |
| Commercial real estate: | | | | | | |
| Owner-occupied | \$ 369 | \$ 376 | \$ 0 | \$ 1,837 | \$ 1,857 | \$ 0 |
| Non-owner-occupied | \$ 16,438 | \$ 18,814 | \$ 11 | \$ 19,378 | \$ 21,640 | \$ 11 |
| Land and construction | \$ 6,409 | \$ 10,030 | \$ 0 | \$ 10,649 | \$ 15,687 | \$ 75 |
| Consumer- | | | | | | |
| Non-real estate secured | \$ 216 | \$ 219 | \$ 0 | \$ 249 | \$ 249 | \$ 0 |
| Total | \$ 32,658 | \$ 40,126 | \$ 11 | \$ 44,721 | \$ 53,705 | \$ 86 |

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

| | Three Months Ended September 30, | | | | | |
|----------------------------|----------------------------------|----------------------------|--------------------------|-----------------------------|----------------------------|--------------------------|
| | 2011 | | | 2010 | | |
| | Average Recorded Investment | Interest Income Recognized | Interest Income Received | Average Recorded Investment | Interest Income Recognized | Interest Income Received |
| Residential real estate- | | | | | | |
| Closed-end first mortgages | \$ 11,080 | \$ 66 | \$ 71 | \$ 13,023 | \$ 88 | \$ 88 |

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| | | | | | | |
|--------------------------|-----------|-------|--------|-----------|--------|--------|
| Multi-family real estate | \$ 0 | \$ 0 | \$ 0 | \$ 260 | \$ 0 | \$ 0 |
| Commercial real estate: | | | | | | |
| Owner-occupied | \$ 296 | \$ 0 | \$ 0 | \$ 1,938 | \$ 0 | \$ 0 |
| Non-owner-occupied | \$ 18,404 | \$ 10 | \$ 92 | \$ 16,049 | \$ 32 | \$ 32 |
| Land and construction | \$ 6,746 | \$ 0 | \$ 28 | \$ 8,358 | \$ 6 | \$ 6 |
| Consumer- | | | | | | |
| Non-real estate secured | \$ 216 | \$ 1 | \$ 1 | \$ 0 | \$ 0 | \$ 0 |
| Total | \$ 36,742 | \$ 77 | \$ 192 | \$ 39,628 | \$ 126 | \$ 126 |

(continued)

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued****(3) Loans, Continued.**

| | Nine Months Ended September 30, | | | | | |
|--|-----------------------------------|--|--------------------------------|-----------------------------------|--|--------------------------------|
| | Average Recorded Investment | 2011 Interest Income Recognized | Interest Income Received | Average Recorded Investment | 2010 Interest Income Recognized | Interest Income Received |
| Residential real estate- Closed-end first mortgages | \$ 11,686 | \$ 174 | \$ 211 | \$ 11,788 | \$ 285 | \$ 285 |
| Multi-family real estate | \$ 0 | \$ 0 | \$ 0 | \$ 449 | \$ 0 | \$ 0 |
| Commercial real estate: Owner-occupied | \$ 466 | \$ 0 | \$ 1 | \$ 2,892 | \$ 0 | \$ 0 |
| Non-owner-occupied | \$ 19,009 | \$ 95 | \$ 303 | \$ 14,294 | \$ 227 | \$ 227 |
| Land and construction | \$ 7,704 | \$ 21 | \$ 119 | \$ 9,588 | \$ 25 | \$ 25 |
| Consumer- Non-real estate secured | \$ 224 | \$ 5 | \$ 5 | \$ 0 | \$ 0 | \$ 0 |
| Total | \$ 39,089 | \$ 295 | \$ 639 | \$ 39,011 | \$ 537 | \$ 537 |

The following is a summary of loans determined to be troubled debt restructuring during the periods presented (dollars in thousands):

| | Three Months Ended September 30, 2011 Outstanding Recorded Investment | | | Nine Months Ended September 30, 2011 Outstanding Recorded Investment | | |
|---|--|----------------------|-----------------------|---|----------------------|-----------------------|
| | Number of Contracts | Pre- Modification | Post- Modification | Number of Contracts | Pre- Modification | Post- Modification |
| Troubled Debt Restructurings: | | | | | | |
| Real estate mortgage loans: | | | | | | |
| Residential real estate: | | | | | | |
| Modified interest rate and amortization | 0 | \$ 0 | \$ 0 | 1 | \$ 1,289 | \$ 1,289 |
| Commercial real estate: | | | | | | |
| Modified interest rate and amortization | 0 | \$ 0 | \$ 0 | 4 | \$ 6,321 | \$ 6,321 |
| Land and construction: | | | | | | |
| Modified interest rate and amortization | 0 | \$ 0 | \$ 0 | 1 | \$ 2,080 | \$ 2,080 |
| Total | 0 | \$ 0 | \$ 0 | 6 | \$ 9,690 | \$ 9,690 |

(continued)

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

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

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

- (4) **Regulatory Capital.** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at September 30, 2011 of the regulatory capital requirements and the Bank's capital on a percentage basis:

| | Bank | Regulatory Requirement |
|--|-------|---------------------------|
| Tier I capital to total average assets | 2.54% | 8.00%* |
| Tier I capital to risk-weighted assets | 3.50% | 4.00% |
| Total capital to risk-weighted assets | 4.77% | 12.00%* |

- * On July 15, 2010, the Bank became subject to these increased capital requirements imposed under the Consent Order, as discussed in Note 9. The Bank is currently not in compliance with these capital ratios.

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

- (5) **Loss Per Share.** Basic loss per share has been computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Basic and diluted loss per share is the same due to the net loss incurred by the Company. All amounts reflect the one-for-four reverse stock split declared in October 2010. Loss per common share has been computed based on the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share | 819,358 | 819,411 | 819,358 | 819,411 |

- (6) **Stock-Based Compensation.** As of December 31, 2005, all stock options were fully vested and no options have been granted since 2005; therefore, no stock-based compensation has been recognized.

The Company established an Incentive Stock Option Plan (the Plan) for officers, directors and employees of the Company and reserved 157,680 (amended) shares of common stock for the plan. Both incentive stock options and nonqualified stock options may be granted under the plan. The exercise price of the stock options is determined by the board of directors at the time of grant, but cannot be less than the fair market value of the common stock on the date of grant. The options vest over three and five years. The options must be exercised within ten years from the date of grant. The Plan terminated on February 27, 2011.

All amounts reflect the one-for-four reverse stock split declared in October 2010. A summary of the activity in the Company's stock option plan is as follows:

| | Number of Options | Weighted- Average Exercise Price | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|----------------------|---|--|---------------------------------|
| Outstanding at December 31, 2010 | 69,132 | \$ 30.05 | | |
| Options expired | (18,232) | \$ 18.16 | | |
| Outstanding and exercisable at September 30, 2011 | 50,900 | \$ 34.31 | 3.3 years | \$ 0 |

(continued)

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

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

| | Fair Value Measurements at Reporting Date Using Quoted Prices | | | |
|----------------------------------|---|--|---|---|
| | Fair Value | In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| <i>As of September 30, 2011-</i> | | | | |
| Mortgage-backed securities | \$ 36,541 | \$ 0 | \$ 36,541 | \$ 0 |

There were no transfers of securities between levels of inputs for the nine months ended September 30, 2011. There were no securities available for sale as of December 31, 2010.

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

| | At September 30, 2011 | | | | | Total Losses | Losses Recorded in Operations For the Nine Months Ended September 30, 2011 |
|----------------------------|-----------------------|---------|---------|-----------|----------|--------------|--|
| | Fair Value | Level 1 | Level 2 | Level 3 | | | |
| Residential real estate- | | | | | | | |
| Closed-end first mortgages | \$ 2,836 | \$ 0 | \$ 0 | \$ 2,836 | \$ 706 | \$ 308 | |
| Commercial real estate: | | | | | | | |
| Owner-occupied | 291 | 0 | 0 | 291 | 8 | 8 | |
| Non-owner-occupied | 6,421 | 0 | 0 | 6,421 | 2,660 | 150 | |
| Land and construction | 5,923 | 0 | 0 | 5,923 | 1,576 | 864 | |
| | \$ 15,471 | \$ 0 | \$ 0 | \$ 15,471 | \$ 4,950 | \$ 1,330 | |

| | At December 31, 2010 | | | | | Total Losses | Losses Recorded in Operations For the Year Ended December 31, 2010 |
|--|----------------------|---------|---------|---------|--|--------------|--|
| | Fair Value | Level 1 | Level 2 | Level 3 | | | |

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| | | | | | | |
|----------------------------|-----------|------|------|-----------|----------|----------|
| Residential real estate- | | | | | | |
| Closed-end first mortgages | \$ 4,136 | \$ 0 | \$ 0 | \$ 4,136 | \$ 561 | \$ 561 |
| Commercial real estate: | | | | | | |
| Owner-occupied | 70 | 0 | 0 | 70 | 20 | 20 |
| Non-owner-occupied | 8,893 | 0 | 0 | 8,893 | 2,583 | 1,857 |
| Land and construction | 7,231 | 0 | 0 | 7,231 | 1,815 | 1,363 |
| | \$ 20,330 | \$ 0 | \$ 0 | \$ 20,330 | \$ 4,979 | \$ 3,801 |

(continued)

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

(7) *Fair Value Measurements, Continued.* Loans with a carrying value of \$8,796,000 and \$15,796,000 at September 30, 2011 and December 31, 2010, respectively, were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value. Foreclosed real estate is recorded at fair value less estimated costs to sell. Foreclosed real estate which is measured at fair value on a nonrecurring basis is as follows (in thousands):

| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | Losses Recorded During the Period |
|-----------------------|------------|---------|---------|----------|--------------|-----------------------------------|
| At September 30, 2011 | \$ 7,218 | \$ 0 | \$ 0 | \$ 7,218 | \$ 704 | \$ 704 |
| At December 31, 2010 | \$ 3,215 | \$ 0 | \$ 0 | \$ 3,215 | \$ 0 | \$ 0 |

The estimated fair values of the Company's financial instruments were as follows (in thousands):

| | At September 30, 2011 | | At December 31, 2010 | |
|---|-----------------------|------------|----------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 20,698 | \$ 20,698 | \$ 14,367 | \$ 14,367 |
| Securities available for sale | 36,541 | 36,541 | 0 | 0 |
| Securities held to maturity | 100 | 100 | 51,057 | 48,839 |
| Loans | 95,756 | 95,803 | 113,542 | 113,513 |
| Federal Home Loan Bank stock | 2,426 | 2,426 | 3,173 | 3,173 |
| Accrued interest receivable | 543 | 543 | 644 | 644 |
| Financial liabilities: | | | | |
| Deposit liabilities | 129,224 | 129,901 | 148,238 | 148,929 |
| Federal Home Loan Bank advances | 31,700 | 33,987 | 31,700 | 33,425 |
| Junior subordinated debenture | 5,155 | 4,735 | 5,155 | 4,740 |
| Off-balance sheet financial instruments | 0 | 0 | 0 | 0 |

Discussion regarding the assumptions used to compute the 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, 2010.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

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

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

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

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

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

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

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

The Company must provide quarterly progress reports to the Reserve Bank along with parent company only financial statements. Management believes the Company is in substantial compliance with the requirements of the Written Agreement.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

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

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

The Consent Order contains the following principal requirements:

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

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

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

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

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

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

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

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

(continued)

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Notes to Condensed Consolidated Financial Statements (unaudited), Continued

(9) *Regulatory Matters Bank, Continued.*

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

Lending and Collection Policies

Investment Policy

Liquidity, Contingency Funding and Funds Management Plan

Interest Rate Risk Management Policy

Internal Loan Review and Grading System and

Internal Control Policy.

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

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

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

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

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

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. Management believes the Bank is currently in substantial compliance with the requirements of the Consent Order except for the Bank's failure to attain the regulatory capital ratio requirements. As described in Note 1, the Company has completed a private placement offering of its common stock, and has entered into a binding agreement to issue additional common stock to a Company director. The consummation of both transactions is intended to result in the Bank attaining such capital ratios. There can be no assurance, however, that the second stock purchase transaction will be completed, or that the Company will raise sufficient capital from this second transaction for the Bank to achieve material compliance with these ratios.

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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, 2010 in the Annual Report on Form 10-K.

Common Stock Offering and Stock Purchase Agreement

Common Stock Offering. The Company completed a private placement offering of its common stock on October 27, 2011, and sold 21,002,250 shares of common stock to accredited investors for net proceeds of \$8.3 million. All of the proceeds were invested in the Bank. Had this transaction been consummated as of September 30, 2011, the Bank's Tier 1 leverage capital ratio and total risk based capital ratios would have been 7.36% and 11.29%, respectively. These ratios are slightly less than the corresponding 8% and 12% capital ratios required under the terms of the Consent Order issued by the FDIC and the Florida Office of Financial Regulation (OFR) discussed below.

Common Stock Purchase Agreement with Gubin. The Company also entered into a binding stock purchase agreement with Company director Moishe Gubin (Gubin) on October 25, 2011, under which Gubin has agreed to purchase, subject to certain conditions, for \$2.7 million in cash, 6,750,000 newly issued shares of common stock of the Company, in addition to 1,800,000 shares purchased by Gubin in the private placement offering. Following this transaction, it is anticipated that Gubin will own 8,550,000 shares, or approximately 30% of the Company's outstanding common stock. The closing of this transaction is subject to regulatory approval from the Federal Reserve Board and the OFR. The stock purchase agreement may be terminated by the Company or Gubin if the closing does not occur by February 28, 2012, but not by either party whose failure to perform any obligations under the agreement required to be performed on or prior to such date has been the cause of, or results in, the failure of the transaction to close on or before such date.

If the transaction with Gubin is consummated, it is anticipated that substantially all the proceeds would be invested in the Bank and the Bank would have total new capital of approximately \$11 million. With \$11 million in new capital, the Bank's Tier 1 leverage and total risk based capital ratios at September 30, 2011, on a pro forma basis, would be 9.00% and 13.48%, respectively. These ratios would exceed the corresponding 8% and 12% ratios imposed under the Consent Order. There can be no assurance, however, that the transaction with Gubin will be consummated, or that the Company will be able to raise sufficient capital in the transaction to meet the Bank's capital requirements under the Consent Order.

Registration Rights Agreements. In connection with the private placement offering and the transaction with Gubin, the Bank has agreed to grant each purchaser of common stock certain registration rights. The Company has agreed to file a registration statement on Form S-3 as soon as practicable after the closing of the private placement (or in the case of the stock purchase by Gubin, the closing of the stock purchase), and to use reasonable best efforts to make such registration statement become effective. The Company is required to maintain this registration statement continuously in effect until all such shares have been sold or become eligible for sale without restrictions under Rule 144 promulgated under the Securities Act. The registration rights are subject to the right of the Company to delay registration to avoid disclosure of material nonpublic information. The holder of registrable securities must comply with certain standard provisions facilitating the filing and effectiveness of the registration statement as well.

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Recent Regulatory Enforcement Actions

Bank Consent Order. On April 16, 2010, the Bank consented to the issuance of a Consent Order (Consent Order) by the FDIC and OFR. The Consent Order covers areas of the Bank s operations that warrant improvement and imposes various requirements and restrictions designed to address these areas, including the requirement to maintain certain minimum capital ratios. A detailed discussion of the Consent Order is contained in Footnote 9 to the condensed consolidated financial statements contained in this report. The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. Management believes that the Bank is currently in substantial compliance with the requirements of the Consent Order except for the Bank s failure to attain the regulatory capital ratio requirements. The Company is conducting a private placement offering of its common stock intended to result in the Bank attaining such capital ratios. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering for the Bank to achieve material compliance with these ratios.

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

Capital Levels

The FDIC has established minimum requirements for capital adequacy for state non-member banks. As of September 30, 2011, the Bank was considered significantly undercapitalized under these FDIC requirements. As a significantly undercapitalized institution, the Bank is subject to restrictions on capital distributions, payment of management fees, asset growth and the acceptance, and renewal or rollover of brokered and high-rate deposits. In addition, the Bank must obtain prior approval of the FDIC prior to acquiring any interest in any company or insured depository institution, establishing or acquiring any additional branch office, or engaging in any new line of business. For more information on FDIC capital requirements, see the discussion under the subheadings Capital Adequacy Requirements in the section Supervision and Regulation included in Item 1 of the Company s 2010 10-K.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued**

The Bank does not meet the additional capital requirements required by the Consent Order. The Consent Order required that no later than July 15, 2010, and during the life of the Consent Order, the Bank shall maintain: (a) a Tier 1 capital to total assets leverage ratio (Leverage ratio) at least equal to or greater than 8%; and (b) a ratio of qualifying total capital to risk-weighted assets (Total risk-based capital ratio) at least equal to or greater than 12%.

The following table summarizes the capital measures of the Bank at September 30, 2011 and December 31, 2010:

| (Dollars in thousands) | September 30, 2011 | December 31, 2010 | FDIC Guideline Requirements | | |
|---------------------------------|-----------------------|----------------------|-----------------------------|----------------------|------------------|
| | | | Adequately- Capitalized | Well- Capitalized | Consent Order |
| Tier I risk-based capital ratio | 3.50 | 5.43 | 4.00 | 6.00 | * |
| Total risk-based capital ratio | 4.77 | 6.70 | 8.00 | 10.00 | 12.00 |
| Leverage ratio | 2.54 | 4.02 | 4.00 | 5.00 | 8.00 |

* No additional requirement is established by the Consent Order

The Company has completed a private placement offering of its common stock, and has entered into a binding agreement to issue additional common stock to a Company director. The consummation of both transactions is intended to result in the Bank attaining the capital ratios required by the Consent Order. There can be no assurance, however, that the second stock purchase transaction will be completed, or that the Company will raise sufficient capital from this second transaction for the Bank to meet these capital ratios.

Financial Condition at September 30, 2011 and December 31, 2010**Overview**

Our total assets declined by \$23.2 million to \$167.1 million at September 30, 2011, from \$190.3 million at December 31, 2010, due to a \$14.4 million reduction in securities primarily as a result of sales and an \$17.8 million reduction in net loans as a result of loan payoffs and the transfer of \$8.6 million in loans to foreclosed real estate, partially offset by a \$6.3 million increase in cash and cash equivalents. Deposits decreased by \$19.0 million to \$129.2 million at September 30, 2011, from \$148.2 million at December 31, 2010. The Company reduced its assets and deposits as part of its strategy to minimize the decline in the Bank's capital ratios. Total stockholders' equity declined by \$4.5 million to a deficit of \$1.7 million at September 30, 2011 from \$2.8 million at December 31, 2010, due to a net loss for the nine months ended September 30, 2011 of \$3.7 million and an increase in accumulated other comprehensive loss of \$0.8 million due to unrealized losses from the reclassification of securities previously held to maturity to the held for sale category in September 2011.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued**

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

| | Nine Months Ended September 30, 2011 | Year Ended December 31, 2010 | Nine Months Ended September 30, 2010 |
|--|---|------------------------------------|---|
| Average equity as a percentage of average assets | 0.13% | 3.01% | 3.34% |
| Equity to total assets at end of period | (1.02)% | 1.49% | 2.23% |
| Return on average assets (1) | (2.72)% | (3.84)% | (3.95)% |
| Return on average equity (1) | (129.87)% | (127.59)% | (118.30)% |
| Noninterest expenses to average assets (1) | 4.19% | 4.44% | 4.68% |

(1) Annualized for the nine months ended September 30, 2011 and 2010.

We continue to experience the adverse effects of a weak economy and the continuing decline in real estate values in south Florida, resulting in significant levels of non-performing loans, foreclosed real estate and loan charge-offs. Management, however, is committed to minimizing further losses in the loan portfolio and reducing our nonperforming assets.

Liquidity and Sources of Funds

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

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

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

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At September 30, 2011, the Bank had outstanding borrowings of \$31.7 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. The use of the Federal Fund line is subject to certain conditions. In 2010, the Bank obtained an available discount window credit line with the Reserve Bank, currently \$1.1 million. The Reserve Bank line is subject to collateral requirements, must be repaid within 90 days, and each advance is subject to prior Reserve Bank consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

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

Off-Balance Sheet Arrangements

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

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

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. As of September 30, 2011, the Company has no commitments to extend credit.

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Results of Operations**

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

| | Three Months Ended September 30, | | | | | |
|--|----------------------------------|--------------------------------------|--|--------------------|--------------------------------------|---------------------------|
| | Average Balance | 2011 Interest and Dividends | Average Yield/ Rate (\$ in thousands) | Average Balance | 2010 Interest and Dividends | Average Yield/ Rate |
| Interest-earning assets: | | | | | | |
| Loans | \$ 102,825 | \$ 1,121 | 4.36% | \$ 126,016 | \$ 1,493 | 4.74% |
| Securities | 38,281 | 378 | 3.95 | 33,158 | 474 | 5.72 |
| Other (1) | 20,881 | 17 | 0.33 | 45,012 | 27 | 0.24 |
| Total interest-earning assets/interest income | 161,987 | 1,516 | 3.74 | 204,186 | 1,994 | 3.91 |
| Cash and due from banks | 27 | | | 878 | | |
| Premises and equipment | 2,726 | | | 2,852 | | |
| Other | 5,363 | | | 5,389 | | |
| Total assets | \$ 170,103 | | | \$ 213,305 | | |
| Interest-bearing liabilities | | | | | | |
| Savings, NOW and money-market deposits | 34,491 | 62 | 0.72 | 39,456 | 98 | 0.99 |
| Time deposits | 97,033 | 379 | 1.56 | 127,820 | 627 | 1.96 |
| Borrowings (2) | 36,855 | 389 | 4.22 | 36,855 | 391 | 4.24 |
| Total interest-bearing liabilities/interest expense | 168,379 | 830 | 1.97 | 204,131 | 1,116 | 2.19 |
| Noninterest-bearing demand deposits | 570 | | | 495 | | |
| Other liabilities | 2,836 | | | 3,357 | | |
| Stockholders' equity | (1,682) | | | 5,322 | | |
| Total liabilities and stockholders' equity | \$ 170,103 | | | \$ 213,305 | | |
| Net interest income | | \$ 686 | | | \$ 878 | |
| Interest-rate spread (3) | | | 1.77% | | | 1.72% |

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| | | |
|-------------------------|-------|-------|
| Net interest margin (4) | 1.69% | 1.72% |
|-------------------------|-------|-------|

| | | |
|--|------|------|
| Ratio of average interest-earning assets to average interest-bearing liabilities | 0.96 | 1.00 |
|--|------|------|

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

Table of Contents**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Results of Operations**

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

| | Nine Months Ended September 30, | | | | | |
|--|---------------------------------|-----------------------------|--------------------|-------------------|-----------------------------|--------------------|
| | Average Balance | 2011 Interest and Dividends | Average Yield/Rate | Average Balance | 2010 Interest and Dividends | Average Yield/Rate |
| | (\$ in thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Loans | \$ 107,650 | \$ 3,607 | 4.47% | \$ 133,503 | \$ 4,982 | 4.98% |
| Securities | 47,309 | 1,407 | 3.97 | 45,047 | 1,898 | 5.62 |
| Other (1) | 17,844 | 46 | 0.34 | 36,662 | 60 | 0.22 |
| Total interest-earning assets/interest income | 172,803 | 5,060 | 3.90 | 215,212 | 6,940 | 4.30 |
| Cash and due from banks | 349 | | | 1,200 | | |
| Premises and equipment | 2,757 | | | 2,890 | | |
| Other | 5,052 | | | 9,021 | | |
| Total assets | \$ 180,961 | | | \$ 228,323 | | |
| Interest-bearing liabilities: | | | | | | |
| Savings, NOW and money-market deposits | 35,615 | 215 | 0.80 | 42,927 | 405 | 1.26 |
| Time deposits | 104,861 | 1,274 | 1.62 | 115,456 | 1,776 | 2.05 |
| Borrowings (2) | 36,855 | 1,153 | 4.17 | 55,974 | 1,695 | 4.04 |
| Total interest-bearing liabilities/interest expense | 177,331 | 2,642 | 1.99 | 214,357 | 3,876 | 2.41 |
| Noninterest-bearing demand deposits | 521 | | | 501 | | |
| Other liabilities | 2,878 | | | 5,836 | | |
| Stockholders equity | 231 | | | 7,629 | | |
| Total liabilities and stockholders equity | \$ 180,961 | | | \$ 228,323 | | |
| Net interest income | | \$ 2,418 | | | \$ 3,064 | |
| Interest-rate spread (3) | | | 1.91% | | | 1.89% |
| Net interest margin (4) | | | 1.87% | | | 1.90% |

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| | | |
|--|------|------|
| Ratio of average interest-earning assets to average interest-bearing liabilities | 0.97 | 1.00 |
|--|------|------|

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Comparison of the Three-Month Periods Ended September 30, 2011 and 2010

General. Net loss for the three months ended September 30, 2011, was \$0.6 million or \$(.69) per basic and diluted share compared to a net loss of \$1.5 million or \$(1.88) per basic and diluted share for the period ended September 30, 2010. This decrease in the Company's net loss was primarily due to a decrease in the provision for loan losses.

Interest Income. Interest income decreased to \$1.5 million for the three months ended September 30, 2011 from \$2.0 million for the three months ended September 30, 2010. Interest income on loans decreased due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned for the three months ended September 30, 2011. Interest on securities decreased to \$0.4 million due primarily to an increase in the average balance of the securities portfolio in 2011, offset by a decrease in the average yield earned.

Interest Expense. Interest expense on deposits decreased to \$0.4 million for the three months ended September 30, 2011 from \$0.7 million for the three months ended September 30, 2010. Interest expense decreased primarily because of a decrease in the average yield paid during 2011 and a decrease in the average balance of deposits.

Provision for Loan Losses. The provision for the three months ended September 30, 2011, was \$(0.2) million compared to \$1.0 million for the same period in 2010. The negative provision in the period ended September 30, 2011, was due primarily to a \$449,000 recovery on a commercial real estate loan that paid off during the period. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio at September 30, 2011. 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 \$3.1 million or 3.18% of loans outstanding at September 30, 2010, compared to \$3.7 million, or 3.16% of loans outstanding at December 31, 2010. Management believes the balance in the allowance for loan losses at September 30, 2011 is adequate.

Noninterest Income. Total noninterest income decreased to \$11,000 for the three months ended September 30, 2011, from \$15,000 for the three months ended September 30, 2010.

Noninterest Expenses. Total noninterest expenses increased to \$1.5 million for the three months ended September 30, 2011 compared to \$1.4 million for the three months ended September 30, 2010. The increase in 2011 is primarily due to increases in professional fees.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Comparison of the Nine-Month Periods Ended September 30, 2011 and 2010

General. Net loss for the nine months ended September 30, 2011, was \$3.7 million or \$(4.50) per basic and diluted share compared to a net loss of \$6.8 million or \$(8.26) per basic and diluted share for the period ended September 30, 2010. This decrease in the Company's net loss was primarily due to a decrease in the provision for loan losses.

Interest Income. Interest income decreased to \$5.1 million for the nine months ended September 30, 2011 compared to \$6.9 million for the nine months ended September 30, 2010. Interest income on loans decreased to \$3.6 million due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned in 2011. Interest on securities decreased to \$1.4 million due primarily to an increase in the average balance of the securities portfolio in 2011, offset by a decrease in the average yield earned.

Interest Expense. Interest expense on deposit accounts decreased to \$1.5 million for the nine months ended September 30, 2011, from \$2.2 million for the nine months ended September 30, 2010. Interest expense on deposits decreased primarily because of a decrease in the average yield paid in 2011. Interest expense on borrowings decreased to \$1.2 million for the nine months ended September 30, 2011 from \$1.7 million for the nine months ended September 30, 2010 due primarily to a decrease in the average balance of borrowings.

Provision for Loan Losses. The provision for the nine months ended September 30, 2011, was \$0.7 million compared to \$3.2 million for the same period in 2010. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the loan portfolio at September 30, 2011. 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 \$3.1 million or 3.18% of loans outstanding at September 30, 2010, compared to \$3.7 million, or 3.16% of loans outstanding at December 31, 2010. Management believes the balance in the allowance for loan losses at September 30, 2011 is adequate.

Noninterest Income. Total noninterest income decreased to \$232,000 for the nine months ended September 30, 2011, from \$1.4 million for the nine months ended September 30, 2010 primarily due to \$1.3 million in gains recognized on the sale of securities in 2010.

Noninterest Expenses. Total noninterest expenses decreased to \$5.7 million for the nine months ended September 30, 2011 from \$8.0 million for the nine months ended September 30, 2010, primarily due to a \$3.7 million loss on early extinguishment of debt in 2010 from the Company's deleveraging of its assets and liabilities in 2010.

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

Item 4. Controls and Procedures

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

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

PART II. OTHER INFORMATION

SIGNATURES

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

OPTIMUMBANK HOLDINGS, INC.

(Registrant)

Date: November 14, 2011

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

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|--|
| 3.1 | Articles of Incorporation (incorporated by reference from Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on May 11, 2004 |
| 3.2 | Articles of Amendment to the Articles of Incorporation, effective as of January 7, 2009 (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K for the year ended December 31, 2008, filed with the SEC on March 31, 2009) |
| 3.3 | Articles of Amendment to the Articles of Incorporation, effective as of November 5, 2010 (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on November 5, 2010) |
| 3.4 | Articles of Amendment to the Articles of Incorporation, effective as of September 29, 2011 (incorporated by reference from Current Report on Form 8-K, filed with the SEC on October 4, 2011) |
| 4.3 | Bylaws (incorporated by reference from Current Report on Form 8-K filed with the SEC on May 11, 2004) |
| 4.1 | Form of stock certificate (incorporated by reference from Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004) |
| 10.1 | Amended and Restated Stock Option Plan (incorporated by reference from Annual Report on Form 10-KSB filed with the SEC on March 31, 2006) |
| 10.2 | Stipulation to Entry of Consent Order and Consent Order between OptimumBank, Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation dated April 16, 2010 (incorporated by reference from current report on Form 8-K filed with the SEC on April 26, 2010) |
| 10.3 | Written Agreement by and between OptimumBank Holdings, Inc. and Federal Reserve Bank of Atlanta dated June 22, 2010 (incorporated by reference from Quarterly Report on Form 10-Q filed with the SEC on November 15, 2010) |
| 10.4 | Stock Purchase Agreement, dated as of October 25, 2011, between OptimumBank Holdings, Inc. and Moishe Gubin (incorporated by reference from Current Report on Form 8-K filed with the SEC on October 31, 2011) |
| 10.5 | Form of Registration Rights Agreement between OptimumBank Holdings, Inc. and Moishe Gubin (incorporated by reference from Current Report on Form 8-K filed with the SEC on October 31, 2011) |
| 10.6 | Form of Registration Rights Agreement between OptimumBank Holdings, Inc. and Investors (incorporated by reference from Current Report on Form 8-K filed with the SEC on October 31, 2011) |
| 10.7 | Form of Subscription Agreement between OptimumBank Holdings, Inc. and Related Parties (incorporated by reference from Current Report on Form 8-K/A filed with the SEC on November 2, 2011) |

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OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 14.1 | Code of Ethics for Chief Executive Officer and Senior Financial Officers (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 31, 2010) |
| 31.1 | Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act |
| 32.1 | Certification of Principal Executive and Principal Financial Officer under 18 U.S.C. Section 1350 |
| 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 |