

OptimumBank Holdings, Inc.  
Form 10-Q  
November 14, 2018

**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, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-50755**

**OPTIMUMBANK HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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

**2477 East Commercial Boulevard, Fort Lauderdale, FL 33308**

(Address of principal executive offices)

**954-900-2800**

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. Yes  No

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 1,813,670 shares of Common Stock, \$0.01 par value, issued and outstanding as of November 14, 2018.

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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

	<b>At September 30, 2018</b>	<b>At December 31, 2017</b>
	(Unaudited)	
Assets:		
Cash and due from banks	\$5,027	\$ 11,233
Interest-bearing deposits with banks	1,020	432
Total cash and cash equivalents	6,047	11,665
Securities available for sale	2,578	11,437
Securities held-to-maturity (fair value of \$7,358)	7,419	-
Loans, net of allowance for loan losses of \$1,905 and \$3,991	76,291	68,220
Federal Home Loan Bank stock	1,215	979
Premises and equipment, net	2,672	2,593
Accrued interest receivable	361	316
Other assets	1,535	656
Total assets	\$98,118	\$ 95,866
Liabilities and Stockholders' Equity:		
Liabilities:		
Noninterest-bearing demand deposits	10,325	12,632
Savings, NOW and money-market deposits	22,361	22,045
Time deposits	25,353	30,574
Total deposits	58,039	65,251
Federal Home Loan Bank advances	26,550	20,500
Junior subordinated debenture	5,155	5,155
Official checks	393	39
Other liabilities	2,186	2,376

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Total liabilities	92,323	93,321
Commitments and contingencies (Notes 1, 8 and 9)		
Stockholders' equity:		
Preferred stock, no par value; 6,000,000 shares authorized: Designated Series A, no par value, \$25,000 liquidation value per share, none issued or outstanding in 2018 and 7 shares issued and outstanding in 2017	—	—
Common stock, \$.01 par value; 5,000,000 shares authorized, 1,813,670 shares issued and outstanding in 2018 and 1,120,947 shares issued and outstanding in 2017	18	11
Additional paid-in capital	36,018	34,090
Accumulated deficit	(29,889 )	(31,306 )
Accumulated other comprehensive loss	(352 )	(250 )
Total stockholders' equity	5,795	2,545
Total liabilities and stockholders' equity	\$98,118	\$95,866

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2017</b>	
Interest income:				
Loans	\$1,015	\$972	\$2,870	\$2,971
Securities	54	96	187	306
Other	36	65	103	162
Total interest income	1,105	1,133	3,160	3,439
Interest expense:				
Deposits	107	167	312	524
Borrowings	216	141	554	378
Total interest expense	323	308	866	902
Net interest income	782	825	2,294	2,537
Credit for loan losses	—	—	(2,100)	—
Net interest income after credit for loan losses	782	825	4,394	2,537
Noninterest income:				
Service charges and fees	2	44	10	55
Gain on sale of securities available for sale	—	7	—	7
Other	19	3	59	9
Total noninterest income	21	54	69	71
Noninterest expenses:				
Salaries and employee benefits	460	423	1,358	1,301
Occupancy and equipment	116	91	322	293
Data processing	112	96	288	262
Professional fees	156	134	379	526
Insurance	21	24	71	72
Regulatory assessment	30	50	108	152
Other	110	117	520	512

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Total noninterest expenses	1,005	935	3,046	3,118
Net (loss) earnings	\$(202 )	\$(56 )	\$1,417	\$(510 )
(Loss) earnings per share:				
Basic and diluted	\$(.13 )	\$(.05 )	\$1.03	\$(.46 )

See accompanying notes to condensed consolidated financial statements.



**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)****(In thousands)**

	<b>Three Months Ended September 30, 2018</b>		<b>Nine Months Ended September 30, 2018</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net (loss) earnings	\$(202)	\$(56)	\$ 1,417	\$(510)
Other comprehensive income (loss):				
Change in unrealized loss on securities:				
Unrealized (loss) gain arising during the period	(20 )	29	262	100
Amortization of unrealized loss on securities transferred to held-to-maturity	27	-	33	-
Reclassification adjustment for unrealized loss on securities transferred to held-to-maturity	-	-	(432 )	-
Reclassification adjustment for realized gains on securities available for sale	-	(7 )	-	(7 )
Other comprehensive income (loss) before income tax (expense) benefit	7	22	(137 )	93
Deferred income tax (expense) benefit on above change	(3 )	(8 )	35	(35 )
Total other comprehensive income (loss)	4	14	(102 )	58
Comprehensive (loss) income	\$(198)	\$(42)	\$ 1,315	\$(452)

See accompanying notes to condensed consolidated financial statements.

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Stockholders' Equity (Unaudited)****Nine Months Ended September 30, 2018 and 2017****(Dollars in thousands)**

	<b>Preferred Stock</b>		<b>Common Stock</b>		<b>Additional Paid-In Capital</b>		<b>Accumulated Deficit</b>		<b>Accumulated Other Comprehensive Loss</b>		<b>Total Stockholders' Equity</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Deficit</b>	<b>Loss</b>			<b>Equity</b>		
Balance at December 31, 2016	7	\$ —	1,103,447	\$ 11	\$ 34,039	\$ (30,717 )	\$ (252 )			\$ 3,081		
Net loss for the nine months ended September 30, 2017 (unaudited)	—	—	—	—	—	(510 )	—			(510 )		
Net change in unrealized loss on securities available for sale, net of taxes (unaudited)	—	—	—	—	—	—	58			58		
Balance at September 30, 2017 (unaudited)	7	\$ —	1,103,447	\$ 11	\$ 34,039	\$ (31,227 )	\$ (194 )			\$ 2,629		
Balance at December 31, 2017	7	—	1,120,947	11	\$ 34,090	\$ (31,306 )	\$ (250 )			\$ 2,545		
Proceeds from sale of common stock (unaudited)	—	—	167,017	2	413	—	—			415		
Common stock issued as compensation to directors (unaudited)	—	—	144,742	2	613	—	—			615		
Common stock issued in exchange for Preferred Stock (unaudited)	(7 )	—	79,186	—	—	—	—			—		
Common stock issued in exchange for Trust Preferred Securities	—	—	301,778	3	902	—	—			905		
	—	—	—	—	—	1,417	—			1,417		

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Net earnings for the nine months  
ended September 30, 2018  
(unaudited)

Net change in unrealized loss on securities available for sale, net of income taxes (unaudited)	—	—	—	—	—	—	197	197						
Amortization of unrealized loss on securities transferred to held-to-maturity (unaudited)	—	—	—	—	—	—	25	25						
Unrealized loss on securities transferred to held-to-maturity, net of income tax benefit (unaudited)	—	—	—	—	—	—	(324 )	(324 )						
Balance at September 30, 2018 (unaudited)	—	\$	—	1,813,670	\$	18	\$	36,018	\$	(29,889 )	\$	(352 )	\$	5,795

See accompanying notes to condensed consolidated financial statements

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings (loss)	\$1,417	\$(510 )
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation	115	117
Credit for loan losses	(2,100 )	—
Gain on sale of securities available for sale	—	(7 )
Net amortization of fees, premiums and discounts	168	316
Decrease in other assets	61	47
(Increase) decrease in accrued interest receivable	(45 )	14
Increase in official checks and other liabilities	779	559
Net cash provided by operating activities	395	536
Cash flows from investing activities:		
Principal repayments and maturity of securities available for sale	666	1,656
Proceeds from sale of securities available for sale	—	2,278
Principal repayments of securities held-to-maturity	559	—
Net (increase) decrease in loans	(6,061 )	7,678
Purchase of premises and equipment, net	(194 )	(70 )
(Purchase) redemption of Federal Home Loan Bank stock	(236 )	134
Net cash (used in) provided by investing activities	(5,266 )	11,676
Cash flows from financing activities:		
Net decrease in deposits	(7,212 )	(8,635 )
Net increase in advance payments by borrowers for taxes and insurance	—	297
Proceeds from sale of common stock	415	—
Net increase (decrease) in FHLB Advances	6,050	(3,000 )
Net cash used in financing activities	(747 )	(11,338)
Net (decrease) increase in cash and cash equivalents	(5,618 )	874

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Cash and cash equivalents at beginning of the period	11,665	17,640
Cash and cash equivalents at end of the period	\$6,047	\$18,514

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

	<b>Nine Months Ended September 30, 2018    2017</b>	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$628	\$748
Income taxes	\$—	\$—
Noncash transaction -		
Change in accumulated other comprehensive loss, net change in unrealized loss on securities, net of tax	\$(102 )	\$58
Transfer of securities from available for sale to held to maturity	7,945	—
Reclassification of stock compensation from other liabilities to common stock	615	—
Issuance of common stock in exchange for Trust Preferred Securities	905	—

See accompanying notes to condensed consolidated financial statements

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

(1) **General.** OptimumBank Holdings, Inc. (the “Holding Company”) is a one-bank holding company and owns 100% of OptimumBank (the “Bank”), a Florida-chartered commercial bank. The 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.

The accompanying unaudited, condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information, and the Securities and Exchange Commission (“SEC”) rules for interim financial reporting. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been omitted pursuant to such rules and regulations. However, in the opinion of management, the accompanying interim condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the Company’s consolidated financial position at September 30, 2018 and the consolidated results of operations, comprehensive (loss) income, and cash flows for the periods presented. The condensed consolidated results of operations for interim periods are not necessarily indicative of the results of operations to be expected for any subsequent interim period or for the fiscal year ended December 31, 2018. The accompanying unaudited consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017 included in the Company’s Form 10-K, which was filed with the SEC on March 28, 2018.

**Going Concern Status.** The Company is in default with respect to its \$5,155,000 Junior Subordinated Debenture (“Debenture”) due to its failure to make certain required interest payments under the Debenture. The Debenture has been issued to Optimum Bank Holdings Capital Trust I, a Delaware statutory trust formed by the Company for the purpose of issuing and selling certain securities (the “Trust Preferred Securities”) representing undivided beneficial interests in the Debenture. The trust issued a total of 5,000 Trust Preferred Securities.

The Trustee, Wells Fargo Bank, for the Debenture (the “Trustee”) and the beneficial owners of the Debenture are entitled to accelerate the payment of the \$5,155,000 principal balance plus accrued and unpaid interest totaling \$1,601,055 at September 30, 2018. To date, neither the Trustee nor the holders have accelerated the outstanding balance of the Debenture. No adjustments to the accompanying condensed consolidated financial statements have been made as a result of this uncertainty.

In May 2018, a company affiliated with a director of the Company (the “New Holder”) purchased all 5,000 of Trust Preferred Securities from a third party. The Company and the New Holder have held discussions

concerning a potential forbearance agreement with respect to the Debenture. To date, the Company and the New Holder have not entered into any definitive agreement with respect to any forbearance. During the third quarter of 2018, the New Holder sold its rights in approximately 694 of the Trust Preferred Securities to several unaffiliated third parties, who subsequently exchanged these Trust Preferred Securities for 301,778 shares of the Company's common stock.

**Comprehensive (Loss) Income.** GAAP generally requires that recognized revenue, expenses, gains and losses be included in net (loss) earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the condensed consolidated balance sheets, such items along with net (loss) earnings, are components of comprehensive (loss) income.

Accumulated other comprehensive loss consists of the following (in thousands):

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Unrealized loss on securities available for sale	\$ (72 )	\$ (334 )
Unamortized portion of unrealized loss related to securities available for sale transferred to securities held-to-maturity	(399 )	—
Income tax benefit	119	84
	<b>\$ (352 )</b>	<b>\$ (250 )</b>

**Income Taxes.** The Company assessed its earnings history and trends and estimates of future earnings, and determined that the deferred tax asset could not be realized at September 30, 2018. Accordingly, a valuation allowance was recorded against the net deferred tax asset.

(continued)



**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**(1) General, Continued.**

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

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

In March 2017, FASB issued ASU 2017-08, *Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)* which amends the accounting for the amortization of premiums for certain purchased callable debt securities by shortening the amortization period to the earliest call date. The ASU is effective for interim and annual periods

beginning after December 15, 2018. The Company is currently evaluating the impact of the ASU, if any, on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*. The ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. The ASU requires an entity to account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award is the same after the modification as compared to the original award prior to the modification. The ASU is effective for reporting periods beginning after December 15, 2017. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedge Activities*. The ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220)*. The ASU provides an option for reclassification from accumulated other comprehensive loss to accumulated deficit for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21 percent corporate income tax rate. The ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The ASU is intended to reduce the cost and complexity and to improve financial reporting for nonemployee share-based payments. The ASU expands the scope of Topic 718, Compensation Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, *Equity-Equity-Based payments to Non-Employees*. The ASU is effective for the Company for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company's adoption date of *Topic 606, Revenue from Contracts with Customers*. The Company is currently evaluating the impact of the ASU, if any, on its condensed consolidated financial statements.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>At September 30, 2018:</b>				
<b>Held-to-maturity -</b>				
Collateralized mortgage obligations	\$ 7,419	\$ —	\$ (61)	) \$7,358
<b>Available for sale -</b>				
SBA Pool Securities	\$ 2,650	\$ —	\$ (72)	) \$2,578
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>At December 31, 2017:</b>				
<b>Available for sale:</b>				
Collateralized mortgage obligations	\$ 8,806	\$ —	\$ (340)	) \$8,466
SBA Pool Securities	2,965	10	(4)	) 2,971
Total	\$ 11,771	\$ 10	\$ (344)	) \$11,437

In April 2018, the bank transferred securities of \$7,945,000 from the available-for-sale category to the held-to-maturity category at their then fair values resulting in unrealized losses of \$432,000. The unrealized loss which is recorded in the stockholders' equity net of amortization and net of tax is being amortized over the remaining term of the securities. At September 30, 2018, \$33,000 has been amortized.

There were no sales of securities available for sale during the three and nine month periods ended September 30, 2018.

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The following Summarizes the sale of Securities available for sale for three and nine month periods ended September 30, 2017

Proceeds from sales	\$2,278
Gross gains from sales	7
Gross loss from sales	-
Net gain from sales	\$7

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

	<b>At September 30, 2018</b>			
	<b>Over Twelve Months</b>		<b>Less Than Twelve Months</b>	
	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<i>Held to Maturity -</i>				
Collateralized Mortgage obligations	\$(34)	\$1,860	\$(27)	\$5,498
<i>Available for sale -</i>				
SBA Pool Securities	\$(28)	\$933	\$(44)	\$1,645

	<b>At December 31, 2017</b>			
	<b>Over Twelve Months</b>		<b>Less Than Twelve Months</b>	
	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<i>Available for Sale:</i>				
Collateralized mortgage obligations	\$(340)	\$8,466	\$—	\$—
SBA Pools Securities	(3 )	539	(1)	540
	\$(343)	\$9,005	\$(1)	\$ 540

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

*Securities, Continued.*

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrants such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospectus of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2018 and December 31, 2017, the unrealized losses on twelve investment securities and nine investment securities, respectively, 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 their market price recovers or their maturity, these investments are not considered other-than-temporarily impaired.

(continued)

**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (Unaudited)**

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

	<b>At September 30, 2018</b>	<b>At December 31, 2017</b>
Residential real estate	\$ 27,508	\$ 26,054
Multi-family real estate	8,251	7,356
Commercial real estate	35,124	32,152
Land and construction	1,725	1,051
Commercial	5,050	4,522
Consumer	352	794
<b>Total loans</b>	<b>78,010</b>	<b>71,929</b>
Add (deduct):		
Net deferred loan fees, costs and premiums	186	282
Allowance for loan losses	(1,905 )	(3,991 )
<b>Loans, net</b>	<b>\$ 76,291</b>	<b>\$ 68,220</b>

(continued)

## OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY

## Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	<b>Residential Real Estate</b>	<b>Multi-Family Real Estate</b>	<b>Commercial Real Estate</b>	<b>Land and Construction</b>	<b>Commercial</b>	<b>Consumer</b>	<b>Unallocated</b>	<b>Total</b>
<i>Three Months Ended</i>								
<i>September 30, 2018:</i>								
Beginning balance	\$ 665	\$ 53	\$ 739	\$ 26	\$ 266	\$ 42	\$ 108	\$1,899
(Credit) provision for loan losses	(118 )	36	(222 )	(16 )	(4)	(12 )	336	—
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	6	—	—	—	6
Ending balance	\$ 547	\$ 89	\$ 517	\$ 16	\$			