

CENTRAL FEDERAL CORP  
Form 10-K  
March 27, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2014

Or

] TRANSITION  
REPORT UNDER  
SECTION 13 OR  
15(d) OF THE  
SECURITIES  
EXCHANGE  
ACT OF 1934

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

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware 34-1877137  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

7000 N. High Street, Worthington, Ohio 43085  
(Address of Principal Executive Offices) (Zip Code)

(614) 334-7979  
(Registrant's Telephone Number, Including Area Code)

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

Common Stock, par value \$.01 per share (Title of Class)	Nasdaq® Capital Market (Name of Exchange on which Registered)
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Securities registered pursuant to Section 12(g) of the Exchange Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

YES  NO

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files.)

YES NO

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

The aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates as of June 30, 2014 was \$23.4 million based upon the closing price as reported on the Nasdaq® Capital Market for that date.

As of March 15, 2015, there were 15,823,710 shares of the registrant's Common Stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Annual Report to Stockholders for its fiscal year ended December 31, 2014, included as Exhibit 13.1 to this Form 10-K, and its Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2015, are incorporated herein by reference into Parts II and III, respectively, of this Form 10-K.

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## Forward-Looking Statements

Statements in this Annual Report on Form 10-K (this “Form 10-K”) and in other communications by the Company that are not statements of historical fact are forward-looking statements which are made in good faith by us. Forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per common share, capital structure and other financial items; (2) plans and objectives of the management or Boards of Directors of Central Federal Corporation (the “Holding Company”) or CFBank; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as “estimate,” “strategy,” “may,” “believe,” “anticipate,” “expect,” “predict,” “will,” “intend,” “plan,” “targeted,” and the negative of these terms, or similar expressions, are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Various risks and uncertainties may cause actual results to differ materially from those indicated by our forward-looking statements, including, without limitation, those risks set forth in the section captioned “RISK FACTORS” in Part I, Item 1A of this Form 10-K.

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

## PART I

### Item 1. Business.

#### General

Central Federal Corporation (the “Holding Company”), was organized as a Delaware corporation in September 1998 as the holding company for CFBank in connection with CFBank’s conversion from a mutual to stock form of organization. As a savings and loan holding company, we are subject to regulation by the Board of Governors of the Federal Reserve System (the “FRB”). CFBank is a savings institution which was originally organized in 1892, and was formerly known as Central Federal Savings and Loan Association of Wellsville and more recently as Central Federal Bank. As used herein, the terms “we,” “us,” “our” and the “Company” refer to Central Federal Corporation and its subsidiaries, unless the context indicates to the contrary.

The consolidated financial statements include Central Federal Corporation (the “Holding Company”) and its wholly-owned subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC (together referred to as the “Company”). Ghent Road, Inc. was formed in 2006 and owned the land adjacent to the corporate office, and Smith Ghent LLC owned the office building on such land. During October 2013, the Company consummated a sale of its corporate office building and adjacent land, and relocated its main office branch to a nearby location. After the sale was finalized, Ghent Road, Inc. and Smith Ghent LLC were legally dissolved, prior to year-end 2013. However, the results of operations of Ghent Road, Inc. and Smith Ghent LLC for 2013 prior to dissolution are included in these consolidated financial statements.

Central Federal Capital Trust I (the “Trust”), a wholly owned subsidiary of the Holding Company, was formed in 2003 to raise additional funding for the Company. The Holding Company is not considered the primary beneficiary of this trust (variable interest entity) and, therefore, the trust is not consolidated in the Company’s financial statements, but rather the subordinated debentures are shown as a liability.

Currently, the Company does not transact material business other than through CFBank. At December 31, 2014, the Company assets totaled \$315.6 million and stockholders’ equity totaled \$34.5 million.

CFBank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. Our business model emphasizes personalized service, clients’ access to decision makers, solution-driven lending and quick execution, efficient use of technology and the convenience of online internet banking, mobile banking, remote deposit and corporate cash management. We attract retail and business deposits from the general public and use the deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans and home equity lines of credit. The majority of our customers are small businesses, small business owners and consumers.

Revenues are derived principally from the generation of interest and fees on loans originated and, to a lesser extent, interest and dividends on securities. Our primary sources of funds are retail and business deposit accounts and certificates of deposit, brokered certificates of deposit and, to a lesser extent, principal and interest payments on loans and securities, Federal Home Loan Bank (FHLB) advances, other borrowings and proceeds from the sale of loans.

Our principal market area for loans and deposits includes the following Ohio counties: Summit County through our office in Fairlawn, Ohio; Franklin County through our office in Worthington, Ohio; Columbiana County through our offices in Calcutta and Wellsville, Ohio; and Cuyahoga County, through our loan production office in Woodmere, Ohio. We originate commercial and residential real estate loans and business loans primarily throughout Ohio.

#### Regulatory Order Considerations

On May 25, 2011, the Holding Company and CFBank each consented to the issuance of an Order to Cease and Desist (the "Holding Company Order" and the "CFBank Order", respectively, and collectively, the "Orders") by the Office of Thrift Supervision (the "OTS"), the primary regulator of the Holding Company and CFBank at the time the Orders were issued. In July 2011, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the FRB replaced the OTS as the primary regulator of the Holding Company and the Office of the Comptroller of the Currency (the "OCC") replaced the OTS as the primary regulator of CFBank. See Note 2 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

The Orders imposed significant directives applicable to the Holding Company and CFBank, including requirements that we reduce the level of our classified and criticized assets, achieve growth and operating metrics in line with an approved business plan, and comply with restrictions on brokered deposits and on certain types of lending and prohibitions on dividends and repurchases of our capital stock. The CFBank Order required CFBank to have 8% core capital and 12% total risk-based capital, and CFBank could not be considered well-capitalized under the prompt corrective action regulations so long as the CFBank Order remained in place, even if it met or exceeded these capital levels. In addition, the regulators were required to approve any deviation from our business plan and certain compensation arrangements with directors and executive officers. See Note 2 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

On August 20, 2012, the Holding Company announced the successful completion of its common stock offering, pursuant to which the Holding Company sold 15.0 million shares of its common stock at \$1.50 per share, resulting in gross proceeds of \$22.5 million before expenses. With the proceeds from the stock offering, the Holding Company contributed \$13.5 million to CFBank to improve its capital ratios and support future growth and expansion, bringing CFBank into compliance with the capital ratios required by the CFBank Order. In addition, the Holding Company used proceeds from the common stock offering to redeem its TARP obligations on September 26, 2012. The remaining proceeds from the restructured registered common stock offering were retained by the Company for general corporate purposes. See Note 2 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

Effective as of January 23, 2014, the OCC released and terminated the CFBank Order based upon the improved capital position of CFBank, among other factors. Notwithstanding the release of the CFBank Order, CFBank is required to continue to maintain a minimum Tier 1 Leverage Capital Ratio of 8% and a Total Risk-based Capital to Risk-Weighted Assets ratio of 12%. In addition, in connection with the release and termination of the CFBank Order, CFBank has made certain commitments to the OCC to continue to adhere to certain prudent practices, including,



without limitation, maintaining a written program to continue to improve CFBank's credit underwriting and administrative process; take actions to protect its interest in criticized assets as identified by CFBank, the OCC examiners or its external loan review process and implement its written program to effectively identify, monitor, control and continue to reduce the level of credit risk to CFBank; review and monitor progress against such plan with the Board of Directors and continue CFBank's aggressive workout efforts and individualized workout plans on all criticized assets greater than \$250,000. See Note 2 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

On May 15, 2014, the FRB announced the termination of the Holding Company Order, effective as of May 9, 2014. Notwithstanding the termination of the Holding Company Order, the Holding Company is required to continue to adhere to certain requirements and restrictions based on commitments made to the FRB in connection with the termination of the Holding Company Order. These commitments require the Holding Company, among other things, to continue to implement certain actions in accordance with the capital plan previously submitted to the FRB; not declare or pay dividends on its stock, purchase or redeem its stock, or accept dividends or other capital distributions from CFBank without the prior written approval of the FRB; not incur, increase or guarantee any debt without the prior written consent of the FRB; and provide prior written notice to the FRB with respect to certain changes in directors and senior executive officers. See Note 2 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information regarding the Orders.

The significant directives contained in the Orders and the commitments made by CFBank and the Holding Company in connection with the release and termination of the Orders have provided challenges for the operation of our business and our ability to effectively compete in our markets. In addition, the Orders and our ongoing commitments to the regulators have required that we obtain approval from our regulators for any deviations from our business plan, which has limited our flexibility to make changes to the scope of our business activities. We have also incurred significant additional regulatory compliance expense in connection with the Orders and our regulatory commitments, and it is possible that regulatory compliance expenses could continue to have a material adverse impact on us in the future.

**Dividend Restrictions:** The ability of the Holding Company to pay dividends on its common stock and Series B Preferred Stock is generally dependent upon the receipt of dividends and other distributions from CFBank. The Holding Company is a legal entity that is separate and distinct from CFBank, which has no obligation to make any dividends or other funds available for the payment of dividends by the Holding Company. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Currently, CFBank cannot declare or pay dividends or make any other capital distributions without receiving prior written regulatory approval. Future dividend payments by CFBank to the Holding Company would be based on future earnings and regulatory approval. The payment of dividends from CFBank to the Holding Company is not likely to be approved by regulators until CFBank is able to generate consistent earnings. As a result of the current level of problem assets and the continuing slow economy, it is unlikely CFBank will be able to pay dividends to the Holding Company until such issues are resolved.

The Holding Company also is subject to various legal and regulatory policies and requirements impacting the Holding Company's ability to pay dividends on its stock, and pursuant to the commitments made to the FRB in connection with the termination of the Holding Company Order, the Holding Company may not declare or pay dividends on its stock without the prior written non-objection of the FRB. In addition, the Holding Company's ability to pay dividends on its stock is conditioned upon the payment, on a current basis, of quarterly interest payments on the subordinated debentures underlying the Company's trust preferred securities, which also requires the written non-objection of the FRB. Finally, so long as the Company's Series B Preferred Stock remains outstanding, the Holding Company will be prohibited from paying dividends on (other than dividends payable solely in shares) the Company's common stock, for the then-current dividend period, unless full dividends on the Series B Preferred Stock have been paid or set aside for payment. Dividends on the Series B Preferred Stock are non-cumulative, which means that if for any reason we do not declare cash dividends on the Series B Preferred Stock for a quarterly dividend period we will have no obligation to pay any dividends for that period (i.e., the dividends will not accrue or cumulate), whether or not we declare dividends on the Series B Preferred Stock for any subsequent dividend period.

The Holding Company has adequate operating capital for the foreseeable future. The Holding Company had \$3.0 million in cash and cash equivalents at December 31, 2014. The regulators have further required the Holding Company to develop a business plan, separate from CFBank, that enables it to significantly reduce its dependence on CFBank for dividends through alternative funding mechanisms.

## Market Area and Competition

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

## Lending Activities

**Loan Portfolio Composition.** The loan portfolio consists primarily of commercial, commercial real estate and multi-family mortgage loans, mortgage loans secured by single-family residences and, to a lesser degree, consumer loans. It also consists of a portfolio of residential mortgage loans totaling \$25.0 million as a result of participation in the Northpointe Mortgage Purchase Program. CFBank also finances a variety of commercial and residential construction projects. At December 31, 2014, gross loans receivable totaled \$264.1 million and increased approximately \$51.3 million, or 24.1% from \$212.9 million at December 31, 2013. Commercial, commercial real estate and multi-family mortgage loans, including related construction loans, totaled \$182.7 million and represented 69.2% of the gross loan portfolio at December 31, 2014 and 77.5% at December 31, 2013. Commercial, commercial real estate and multi-family mortgage loan balances, including related construction loans, increased \$13.1 million, or 8.1% during 2014. Portfolio single-family residential mortgage loans, including related construction loans and the Mortgage Purchase Program Loans, totaled \$59.5 million and represented 22.5% of total gross loans at year-end 2014, compared to 15.1% at year-end 2013. The remainder of the portfolio consisted of consumer loans, which totaled \$22.0 million, or 8.3% of gross loans receivable at year-end 2014.

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

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

	December 31, 2014		2013		2012		2011		2010	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)									
Real estate mortgage loans:										
Single-family	\$ 51,542	19.51%	\$ 32,219	15.13%	\$ 43,058	27.21%	\$ 18,214	11.58%	\$ 23,273	11.61%
Multi-family	28,863	10.93%	32,197	15.12%	21,576	13.63%	27,163	17.27%	35,308	17.61%
Construction	23,732	8.98%	11,465	5.39%	14	0.01%	-	0.00%	4,919	2.45%
Commercial real estate	91,404	34.60%	83,752	39.34%	54,291	34.30%	69,757	44.35%	80,725	40.26%
Total real estate mortgage loans	195,541	74.02%	159,633	74.99%	118,939	75.15%	115,134	73.20%	144,225	71.93%
Consumer loans:										
Home equity loans	551	0.21%	352	0.17%	419	0.26%	651	0.41%	968	0.48%
Home equity lines of credit	16,955	6.42%	14,851	6.98%	12,963	8.19%	14,921	9.49%	16,316	8.14%
Automobile	122	0.05%	77	0.04%	50	0.03%	41	0.03%	98	0.05%
Other	4,322	1.64%	431	0.20%	501	0.32%	529	0.34%	724	0.36%
Total consumer loans	21,950	8.32%	15,711	7.38%	13,933	8.80%	16,142	10.27%	18,106	9.03%
Commercial loans	46,656	17.66%	37,526	17.63%	25,408	16.05%	25,994	16.53%	38,194	19.04%
Total loans receivable	264,147	100.00%	212,870	100.0%	158,280	100.0%	157,270	100.0%	200,525	100.0%
Less:										
Allowance for loan losses	(6,316)		(5,729)		(5,237)		(6,110)		(9,758)	
Loans receivable, net	\$ 257,831		\$ 207,141		\$ 153,043		\$ 151,160		\$ 190,767	



Loan Maturity. The following table shows the remaining contractual maturity of the loan portfolio at December 31, 2014. Demand loans and other loans having no stated schedule of repayments or no stated maturity are reported as due within one year. The table does not include potential prepayments or scheduled principal amortization.

	At December 31, 2014			
	Real Estate			Total
	Mortgage Loans(1)	Consumer Loans	Commercial Loans	Loans Receivable
	(Dollars in thousands)			
Amounts due:				
Within one year	\$ 37,061	\$ 4,298	\$ 3,685	\$ 45,044
After one year:				
More than one year to three years	45,510	99	4,961	50,570
More than three years to five years	35,806	122	18,801	54,729
More than five years to 10 years	36,415	635	8,210	45,260
More than 10 years to 15 years	8,565	5,344	45	13,954
More than 15 years	32,184	11,452	10,954	54,590
Total due after 2015	158,480	17,652	42,971	219,103
Total amount due	\$ 195,541	\$ 21,950	\$ 46,656	\$ 264,147

The following table sets forth at December 31, 2014, the dollar amount of total loans receivable contractually due after December 31, 2015, and whether such loans have fixed interest rates or adjustable interest rates.

	Due After December 31, 2015		
	Fixed	Adjustable	Total
Real estate mortgage loans(1)	\$ 85,536	\$ 72,944	\$ 158,480
Consumer loans	502	17,150	17,652
Commercial loans	16,625	26,346	42,971
Total loans	\$ 102,663	\$ 116,440	\$ 219,103

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





**Origination of Loans.** Lending activities are conducted through our offices located in Summit, Cuyahoga, Franklin and Columbiana Counties, Ohio. We originate commercial, commercial real estate and multi-family mortgage loans and also expanded into business financial services in the Akron, Cleveland and Columbus, Ohio markets.

Commercial, commercial real estate and multi-family loans are originated as fixed, floating and ARM structures. Fixed-rate loans are generally limited to three to five years. Historically, CFBank also has also utilized interest-rate swaps to protect the related fixed-rate loans from changes in value due to changes in interest rates. See Note 20 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information on interest-rate swaps.

CFBank participates in various loan programs offered by the Small Business Administration (SBA) enabling us to provide our customers and small business owners in our markets with access to funding to support their businesses, as well as reduce credit risk associated with these loans. Individual loans include SBA guarantees of up to 90%. We also participated in the State of Ohio's GrowNOW program, which provides small business borrowers with a 3% interest rate reduction on small business loans funded through deposits from the State of Ohio at CFBank. Neither the SBA nor the GrowNOW programs are a material component of our lending programs.

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

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

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

We currently sell the majority of the single-family mortgage loans that we originate on a servicing released basis. All single-family mortgage loans sold are underwritten according to Federal Home Loan Mortgage Corporation (Freddie Mac) or Federal National Mortgage Association (Fannie Mae) guidelines, or are underwritten to comply with additional guidelines as may be required by the individual investor. CFBank is a direct endorsed underwriter, a designation by the Department of Housing and Urban Development that allows us to offer loans insured by the Federal Housing Authority (FHA).

A high volume of residential mortgage originations is a key metric for the continued success of our mortgage business. For the year ended December 31, 2014, single-family mortgage loans originated for sale totaled \$50.5

million, an increase of \$17.9 million or 54.8% over the \$32.6 million that was originated in 2013. The increase in originations was partially due to additional mortgage loan originators in the current year. The volume of refinance activity, which is very sensitive to market mortgage interest rates, was a significant factor that impacted the level of residential loan originations in 2014. If market mortgage rates increase, our mortgage production, and the resultant gains on sales of loans, could decrease.

At December 31, 2014, portfolio single-family mortgage loans originated by CFBank totaled \$26.5 million, or 10.0% of total loans. Our policy is to originate single-family residential mortgage loans for portfolio in amounts up to 85% of the lower of the appraised value or the purchase price of the property securing the loan, without requiring private mortgage insurance. Loans in excess of 85% of the lower of the appraised value or purchase price of the property securing the loan require private mortgage insurance. Mortgage loans generally include due-on-sale clauses which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent.

Portfolio single-family ARM loans, which totaled \$11.0 million, or 21.3% of the single-family mortgage loan portfolio at December 31, 2014, generally pose credit risks not inherent in fixed-rate loans, primarily because as interest rates rise, the borrowers' payments rise, increasing the potential for default. Periodic and lifetime caps on interest rate increases help to reduce the credit risks associated with ARM loans, but also limit the interest rate sensitivity of such loans.

On December 11, 2012, CFBank entered into a Mortgage Purchase Program with Northpointe, a Michigan banking corporation. Through a Participation Agreement, CFBank agreed to temporarily purchase from the Michigan bank fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage brokers located throughout the U.S. The Participation Agreement provides for CFBank to purchase individually (MERS registered) loans from the Michigan bank and hold them until funded by the end investor. This process on average takes roughly 14 days. The mortgage loan investors include Fannie Mae and Freddie Mac, and other major financial institutions like Wells Fargo Bank. The Purchase Agreement provided CFBank with \$25.0 million and \$12.7 million in purchased mortgage loans at December 31, 2014 and December 31, 2013, respectively. CFBank purchases an 80% interest in these loans (which have been pre-sold to an investor) from Northpointe. These Loans are 100% risk-rated and held as portfolio loans. Effective December 18, 2014, the participation agreement was amended and CFBank agreed to increase the level of loans it would purchase from Northpointe from 80% to 95% of the aforementioned loans, and therefore, Northpointe now maintains a 5% ownership interest in each loan it participates. See Note 4 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K.

**Commercial Real Estate and Multi-Family Residential Mortgage Lending.** Origination of commercial real estate and multi-family residential mortgage loans continues to be a significant portion of CFBank's lending activity. Commercial real estate and multi-family residential mortgage loan balances increased \$4.3 million to \$120.3 million at December 31, 2014. This represented an increase of 3.7% over the \$115.9 million balance at December 31, 2013.

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

Underwriting policies provide that commercial real estate and multi-family residential mortgage loans may be made in amounts up to 85% of the lower of the appraised value or purchase price of the property. An independent appraisal of the property is required on all loans greater than or equal to \$250,000. In underwriting commercial real estate and multi-family residential mortgage loans, we consider the appraised value and net operating income of the property, the debt service ratio and the property owner's and/or guarantor's financial strength, expertise and credit history. We offer both fixed and adjustable rate loans. Fixed rate loans are generally limited to three to five years, at which time they convert to adjustable rate loans. At times, CFBank accommodates loans to borrowers who desire fixed-rate loans for longer than three to five years. We have utilized interest-rate swaps to protect these fixed-rate loans from changes in value due to changes in interest rates, as appropriate. See Note 20 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for additional information on interest-rate swaps. Adjustable-rate loans are tied to various market indices and generally adjust monthly or annually. Payments on both fixed and adjustable rate loans are based on 15 to 25 year amortization periods.

Commercial real estate and multi-family residential mortgage loans are generally considered to involve a greater degree of risk than single-family residential mortgage loans. Because payments on loans secured by commercial real estate and multi-family residential properties are dependent on successful operation or management of the properties, repayment of commercial real estate and multi-family residential mortgage loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. As with single-family residential mortgage loans,

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

Commercial real estate and multi-family residential mortgage loans also have larger loan balances to single borrowers or groups of related borrowers compared to single-family residential mortgage loans. Some of our borrowers also have more than one commercial real estate or multi-family residential mortgage loan outstanding with us.

Additionally, some loans may be collateralized by junior liens. Consequently, an adverse development involving one or more loans or credit relationships can expose us to significantly greater risk of loss compared to an adverse development involving a single-family residential mortgage loan. We seek to minimize and mitigate these risks through underwriting policies which require such loans to be qualified at origination on the basis of the property's income and debt

coverage ratio and the financial strength of the property owners and/or guarantors.

**Commercial Lending.** The origination of commercial loans continues to be a significant component of our lending activity. During 2014, commercial lending activity improved over prior years and increased by \$9.1 million, or 24.3%, to \$46.7 million at year-end 2014. We originate commercial loans primarily to businesses located within our primary market area. Commercial loans are generally secured by business equipment, inventory, accounts receivable and other business assets. In underwriting commercial loans, we consider the net operating income of the company, the debt service ratio and the financial strength, expertise and credit history of the business owners and/or guarantors. We offer both fixed and adjustable rate commercial loans. Fixed-rate loans are generally limited to a maximum term of five years. Adjustable-rate loans are tied to various market indices and generally adjust monthly or annually.

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

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

**Construction and Land Lending.** With some economic improvement in our market areas, there was also an increase in commercial building activity. During 2014, construction loans increased by \$12.3 million, or 107.0%, to \$23.7 million, which was a substantial increase from the \$11.5 million in the portfolio at year-end 2013. The additional capital has allowed CFBank to take advantage of select market opportunities in this area within the risk tolerances we have identified.

Construction loans are made to finance the construction of residential and commercial properties generally located within our primary market area. Construction loans are fixed- or adjustable-rate loans which may convert to permanent loans with maturities of up to 30 years. Our policies provide that construction loans may be made in amounts up to 80% of the appraised value of the property, and an independent appraisal of the property is required. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant and regular inspections are required to monitor the progress of construction. Land development loans generally do not exceed 75% of the actual cost or current appraised value of the property, whichever is less. Loans on raw land generally do not exceed 65% of the actual cost or current appraised value of the property, whichever is less.

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

**Consumer and Other Lending.** The consumer loan portfolio generally consists of home equity lines of credit, automobile loans, home improvement loans and loans secured by deposits. At December 31, 2014, the consumer loan portfolio totaled \$22.0 million, which was 8.3% of gross loans receivable. During 2014, the consumer loan portfolio

grew \$6.2 million, or 39.7% over the year-end 2013 balance of \$15.7 million.

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

Delinquencies and Classified Assets. Management and the Board of Directors monitors the status of all loans 30 days or more past due on a monthly basis through the analysis of past due statistics and trends for all loans. Procedures with respect to resolving delinquencies vary depending on the nature and type of the loan and period of delinquency. We make efforts, consistent with safety and soundness principles, to work with the borrower and develop action steps to have the loan brought current. If the loan is not brought current, it then becomes necessary to take additional legal actions including the repossession of collateral.

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

Federal regulations and CFBank's asset classification policy require use of an internal asset classification system as a means of reporting and monitoring assets. We have incorporated the regulatory asset classifications as a part of our credit monitoring and internal loan risk rating system. Loans are classified into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. In accordance with regulations, problem loans are classified as special mention, substandard, doubtful or loss, and the classifications are subject to review by banking regulators. Loans designated as special mention are considered criticized assets. Loans designated as substandard, doubtful or loss are considered classified assets. Loans designated as special mention possess weaknesses that, if left uncorrected, may result in deterioration of the repayment prospects for the loan or of CFBank's credit position at some future date. A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that there will be some loss if the deficiencies are not corrected. A loan considered doubtful has all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, condition and values, highly questionable and improbable. Loans designated as loss are considered uncollectible based on the borrower's inability to make payments, and any value attached to collateral, if any, is based on liquidation value. Loans considered loss are generally uncollectible and have so little value that their continuance as assets is not warranted and are charged off, unless certain circumstances exist that could potentially warrant a specific reserve be established.

See the section titled "Financial Condition - Allowance for loan losses" and Notes 1 and 4 to the Consolidated Financial Statements included in our 2014 Annual Report to Stockholders, included as Exhibit 13.1 to this Form 10-K, for detailed information on criticized and classified loans as of December 31, 2014 and 2013.

Classified loans include all nonaccrual loans, which are discussed in further detail in the section below titled "Nonperforming Assets". In addition to nonaccrual loans, classified loans include the following loans that were identified as substandard assets, were still accruing interest at December 31, 2014, but exhibit weaknesses that could lead to nonaccrual status in the future.

# of Loans	Balance
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Commercial	2	\$ 91
Single-family residential real estate	2	32
Multi-family residential real estate	3	2,382
Commercial real estate	14	8,631
Home equity lines of credit	3	261
Total	24	\$ 11,397



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

	December 31, 2014				December 31, 2013				December 31, 2012			
	60-89 Days		90 Days or More		60-89 Days		90 Days or More		60-89 Days		90 Days or More	
	Number	Balance	Number	Balance	Number	Balance	Number	Balance	Number	Balance	Number	Balance
	of	of	of	of	of	of	of	of	of	of	of	of
	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans	Loans
	(Dollars in thousands)				(Dollars in thousands)				(Dollars in thousands)			
Real estate loans:												
Single-family	2	\$ 47	9	\$ 549	1	\$ 36	10	\$ 479	2	\$ 122	5	\$ 113
Multi-family	-	-	-	-	-	-	-	-	-	-	-	-