CENTRAL FEDERAL CORP
Form 10-Q
August 16, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2010

or

o **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 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

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

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices) (Zip Code)

(330) 666-7979
(Registrant s telephone number, including area code)

(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 þ No o

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 o No o

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.

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

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

As of July 30, 2010, there were 4,122,839 shares of the registrant s Common Stock outstanding.

CENTRAL FEDERAL CORPORATION
FORM 10-Q
QUARTER ENDED JUNE 30, 2010
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CENTRAL FEDERAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)
(Unaudited)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 13,406	$ 2,973
Securities available for sale	24,282	21,241
Loans held for sale	10,069	1,775
Loans, net of allowance of $10,074 and $7,090	208,238	231,105
Federal Home Loan Bank stock	1,942	1,942
Loan servicing rights	72	88
Foreclosed assets, net	2,348	
Premises and equipment, net	6,783	7,003
Other intangible assets	149	169
Bank owned life insurance	4,083	4,017
Accrued interest receivable and other assets	3,729	3,429
	$ 275,101	$ 273,742
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits		
Noninterest bearing	$ 20,687	$ 17,098
Interest bearing	205,568	193,990
Total deposits	226,255	211,088
Short-term Federal Home Loan Bank advances		2,065
Long-term Federal Home Loan Bank advances	23,942	29,942
Advances by borrowers for taxes and insurance	48	161
Accrued interest payable and other liabilities	2,549	2,104
Subordinated debentures	5,155	5,155
Total liabilities	257,949	250,515
Stockholders equity		
Preferred stock, Series A, $.01 par value; $7,225 aggregate liquidation value, 1,000,000 shares authorized; 7,225 shares issued	7,045	7,021
Common stock, $.01 par value; shares authorized; 12,000,000, shares issued; 4,651,372 in 2010 and 4,658,120 in 2009	47	47
Common stock warrant	217	217
Additional paid-in capital	27,476	27,517
Retained earnings (accumulated deficit)	(14,887)	(9,034)
Accumulated other comprehensive income	499	704
Treasury stock, at cost; 558,533 shares	(3,245)	(3,245)

Total stockholders equity	17,152	23,227
	$ 275,101	$ 273,742

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Interest and dividend income				
Loans, including fees	$ 3,074	$ 3,326	$ 6,220	$ 6,723
Securities	172	288	368	585
Federal Home Loan Bank stock dividends	21	23	43	47
Federal funds sold and other	15	7	23	19
	3,282	3,644	6,654	7,374
Interest expense				
Deposits	890	1,222	1,809	2,581
Short-term Federal Home Loan Bank advances and other debt				1
Long-term Federal Home Loan Bank advances and other debt	170	296	354	550
Subordinated debentures	41	53	81	109
	1,101	1,571	2,244	3,241
Net interest income	2,181	2,073	4,410	4,133
Provision for loan losses	5,938	1,357	6,686	1,907
Net interest income after provision for loan losses	(3,757)	716	(2,276)	2,226
Noninterest income				
Service charges on deposit accounts	74	79	144	161
Net gains on sales of loans	181	179	331	331
Loan servicing fees, net	2	9	10	18
Net gain on sales of securities			240	
Earnings on bank owned life insurance	33	32	66	64
Other	3	2	12	13
	293	301	803	587
Noninterest expense				
Salaries and employee benefits	1,060	1,097	2,113	2,143
Occupancy and equipment	45	139	113	284
Data processing	164	151	319	307

Franchise taxes	85	92	178	178
Professional fees	272	105	478	442
Director fees	26	17	52	51
Postage, printing and supplies	43	53	102	112
Advertising and promotion	27	2	55	14
Telephone	27	28	51	52
Loan expenses	16	19	43	32
Foreclosed assets, net	1		1	
Depreciation	133	117	264	236
FDIC Premiums	101	271	250	336
Amortization of intangibles	10		20	
Other	89	91	166	175
	2,099	2,182	4,205	4,362
Loss before income taxes	(5,563)	(1,165)	(5,678)	(1,549)
Income tax expense (benefit)	(10)	(403)	(30)	(541)
Net loss	(5,553)	(762)	(5,648)	$ (1,008)
Preferred stock dividends and accretion of unearned discount on preferred stock	(102)	(102)	(204)	(203)
Net loss attributable to common stockholders	$ (5,655)	$ (864)	$ (5,852)	$ (1,211)
Loss per common share:				
Basic	$ (1.38)	$ (0.21)	$ (1.43)	$ (0.30)
Diluted	$ (1.38)	$ (0.21)	$ (1.43)	$ (0.30)

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Common Stock Warrant	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2010	$ 7,021	$ 47	$ 217	$ 27,517	$ (9,034)	$ 704	$ (3,245)	$ 23,227
Comprehensive loss:								
Net loss					(5,648)			(5,648)
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax effects						(205)		(205)
Total comprehensive loss								(5,853)
Accretion of discount on preferred stock	24				(24)			
Release of (2,277) stock based incentive plan shares, net of forfeitures				(7)				(7)
Tax effect from vesting of stock based incentive plan shares				(30)				(30)
Stock option expense, net of forfeitures				(4)				(4)
Preferred stock dividends					(181)			(181)
Balance at June 30, 2010	$ 7,045	$ 47	$ 217	$ 27,476	$ (14,887)	$ 499	$ (3,245)	$ 17,152

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands except per share data)
(Unaudited)

	Preferred Stock	Common Stock	Common Stock Warrant	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2009	$ 6,989	$ 47	$ 217	$ 27,455	$ 1,262	$ 350	$ (3,245)	$ 33,075
Comprehensive loss:								
Net loss					(1,008)			(1,008)
Other comprehensive income						151		151
Total comprehensive loss								(857)
Preferred stock offering costs	(13)							(13)
Accretion of unearned discount on preferred stock	22				(22)			
Release of 6,925 stock based incentive plan shares				29				29
Forfeiture of 1,200 stock based incentive plan shares					1			1
Tax benefits from dividends on unvested stock based incentive plan shares				1				1
Tax effect from vesting of stock based incentive plan shares				(20)				(20)
Stock option expense				15				15
Preferred stock dividends					(181)			(181)
Balance at June 30, 2009	$ 6,998	$ 47	$ 217	$ 27,480	$ 52	$ 501	$ (3,245)	$ 32,050

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities	$ (1,287)	$ (4,808)
Cash flows from investing activities Available-for-sale securities:		
Sales	9,031	
Maturities, prepayments and calls	2,556	3,157
Purchases	(14,737)	(2,031)
Loan originations and payments, net	3,830	340
Proceeds from sale of portfolio loans	4,302	
Additions to premises and equipment	(45)	(22)
Proceeds from the sale of premises and equipment		1
Proceeds from the sale of foreclosed assets		28
Net cash from investing activities	4,937	1,473
Cash flows from financing activities		
Net change in deposits	15,142	7,250
Net change in short-term borrowings from the FHLB and other debt	(2,065)	(5,850)
Proceeds from long-term FHLB advances and other debt		17,942
Repayments on long-term FHLB advances and other debt	(6,000)	(7,200)
Net change in advances by borrowers for taxes and insurance	(113)	(95)
Cash dividends paid on common stock		(205)
Cash dividends paid on preferred stock	(181)	(161)
Costs associated with issuance of preferred stock		(13)
Net cash from financing activities	6,783	11,668
Net change in cash and cash equivalents	10,433	8,333
Beginning cash and cash equivalents	2,973	4,177
Ending cash and cash equivalents	$ 13,406	$ 12,510
Supplemental cash flow information:		
Interest paid	$ 2,186	$ 3,265
Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	$ 2,348	$ 174
Loans issued to finance the sale of repossessed assets		162
Loans transferred from portfolio to held for sale	5,772	

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The consolidated financial statements include Central Federal Corporation and its wholly owned subsidiaries, CFBank, Ghent Road, Inc., and Smith Ghent LLC, together referred to as the Company . The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) and in compliance with U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted.

In the opinion of the management of the Company, the accompanying unaudited interim consolidated financial statements include all adjustments necessary for a fair presentation of the Company s financial condition and the results of operations for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed in this Form 10-Q. The financial performance reported for the Company for the three and six months ended June 30, 2010 is not necessarily indicative of the results that may be expected for the full year. This information should be read in conjunction with the Company s latest Annual Report to Stockholders and Form 10-K. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company s 2009 Annual Report that was filed as Exhibit 13.1 to the Company s Form 10-K for the year ended December 31, 2009. The Company has consistently followed those policies in preparing this Form 10-Q.

Reclassifications: Some items in the prior period financial statements were reclassified to conform to the current presentation. Reclassifications did not impact prior period net loss or stockholders equity.

Earnings (Loss) Per Common Share: Basic earnings (loss) per common share is net income (loss) available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and stock warrants.

The factors used in the loss per common share computation follow.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Basic				
Net loss	$ (5,553)	$ (762)	$ (5,648)	$ (1,008)
Less: Preferred dividends and accretion of discount on preferred stock	(102)	(102)	(204)	(203)
Net loss allocated to unvested share-based payment awards	3	3	4	4
Net loss allocated to common stockholders	$ (5,652)	$ (861)	$ (5,848)	$ (1,207)
Weighted average common shares outstanding	4,095,993	4,087,785	4,095,607	4,086,162
Basic loss per common share	$ (1.38)	$ (0.21)	$ (1.43)	$ (0.30)
Diluted				

Net loss allocated to common stockholders	$ (5,652)	$ (861)	$ (5,848)	$ (1,207)
Weighted average common shares outstanding for basic loss per common share	4,095,993	4,087,785	4,095,607	4,086,162
Add: Dilutive effects of assumed exercises of stock options				
Add: Dilutive effects of assumed exercises of stock warrant				
Average shares and dilutive potential common shares	4,095,993	4,087,785	4,095,607	4,086,162
Diluted loss per common share	$ (1.38)	$ (0.21)	$ (1.43)	$ (0.30)

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per common share because the Company reported a net loss for the period presented.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Stock options	278,565	414,177	292,030	415,410
Stock warrants	336,568	336,568	336,568	336,568

Adoption of New Accounting Standards:

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (Accounting Standards Codification (ASC) 810). The new accounting requirement amends previous guidance relating to the transfers of financial assets and eliminates the concept of a qualifying special-purpose entity. ASC 810 must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. ASC 810 must be applied to transfers occurring on or after the effective date. Additionally, on and after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. Therefore, formerly qualifying special-purpose entities should be evaluated for consolidation by reporting entities on and after the effective date in accordance with the applicable consolidation guidance. Additionally, the disclosure provisions of ASC 810 were also amended and apply to transfers that occurred both before and after the effective date of ASC 810. The adoption of ASC 810 did not have a material effect on the Company s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC 810), which amended guidance for consolidation of variable interest entities by replacing the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. SFAS No. 167 also requires additional disclosures about an enterprise s involvement in variable interest entities. SFAS No. 167 will be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Early adoption is prohibited. The adoption of SFAS No. 167 did not have an impact on the Company s consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06 to Fair Value Measurements and Disclosures (ASC 820), *Improving Disclosures About Fair Value Measurements.* This ASU added new disclosures about transfers in and out of Level 1and 2 fair value measurements, clarified existing fair value disclosure requirements about the appropriate level of disaggregation, and clarified that a description of valuation techniques and inputs used to measure fair value was required for recurring and nonrecurring Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures for ASC 820 were effective for interim and annual reporting periods beginning after December 15, 2009. Adoption of these disclosure provisions of the ASU had no impact on the Company s consolidated financial statements. This ASU also requires disclosures for Level 3 activity about purchases, sales, issuances, and settlements be presented on a gross basis rather than as a net number, as currently permitted. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of these disclosure provisions of the ASU did not have an impact on the Company s consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Effect of newly issued but not yet effective Accounting Standards

In July 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-20 to Receivables (ASC 310) *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU adds new disclosures designed to enhance the transparency of an entity s allowance for loan and lease losses (ALLL), and the credit quality of its financing receivables, and to increase the understanding of an entity s credit risk exposure and adequacy of the ALLL. The required disclosures will include the nature of the credit risk inherent in the loan portfolio, how the risk is analyzed and assessed to determine the ALLL, and the changes and reasons for those changes in the ALLL. These disclosures are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of these disclosure provisions of the ASU is not expected to have a material impact on the Company s consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 2 SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at June 30, 2010 and December 31, 2009 and the corresponding amounts of unrealized gains and losses recognized in accumulated other comprehensive income (loss) as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2010				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 2,182	$ 240	$	$ 2,422
Collateralized mortgage obligations	21,421	446	7	21,860
Total	$ 23,603	$ 686	$ 7	$ 24,282

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2009				
Issued by U.S. government-sponsored entities and agencies:				
Mortgage-backed securities residential	$ 5,171	$ 390	$	$ 5,561
Collateralized mortgage obligations	13,551	479		14,030
Collateralized mortgage obligations issued by private issuers	1,635	15		1,650
Total	$ 20,357	$ 884	$	$ 21,241

The proceeds from sales and calls of securities and the associated gains in the six months ended June 30, 2010 are listed below:

	Six months ended June 30, 2010
Proceeds	$ 9,031
Gross gains	240
Gross losses	

There were no proceeds from sales and calls of securities in the three months ended June 30, 2010 or the three and six months ended June 30, 2009.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 2 SECURITIES (continued)

At June 30, 2010 and December 31, 2009, there were no debt securities contractually due at a single maturity date. The amortized cost and fair value of mortgage-backed securities and collateralized mortgage obligations which do not have a single maturity date, totaled $23,603 and $24,282 at June 30, 2010, and $20,357 and $21,241 at December 31, 2009.

Fair value of securities pledged was as follows:

	June 30, 2010	December 31, 2009
Pledged as collateral for:		
FHLB advances	$ 11,187	$ 11,045
Public deposits	6,632	4,038
Customer repurchase agreements	3,085	3,088
Interest-rate swaps	1,032	1,010
Total	$ 21,936	$ 19,181

At June 30, 2010 and December 31, 2009, there were no holdings of securities of any one issuer, other than U.S. government-sponsored entities and agencies, in an amount greater than 10% of stockholders equity.

The following table summarizes securities with unrealized losses at June 30, 2010 aggregated by major security type and length of time in a continuous unrealized loss position. There were no securities with unrealized losses at December 31, 2009.

	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Issued by U.S. government-sponsored agencies and entities:						
Collateralized mortgage obligations	$ 2,157	$ 7	$	$	$ 2,157	$ 7
Total temporarily impaired	$ 2,157	$ 7	$	$	$ 2,157	$ 7

In determining other than temporary impairments for debt securities, management considers many factors, including (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 prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Unrealized losses have not been recognized into income because the unrealized losses, which are related to two Ginnie Mae (GNMA) collateralized mortgage obligations, carry the full faith and credit guarantee of the U.S. government,

management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the bonds approach maturity.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 3 LOANS

	June 30, 2010	December 31, 2009
Commercial	$ 44,008	$ 42,769
Real estate:		
Single-family residential	26,835	29,461
Multi-family residential	35,834	37,679
Commercial	83,824	96,443
Construction	7,743	5,791
Consumer	20,068	26,052
Subtotal	218,312	238,195
Less: Allowance for loan losses (ALLL)	(10,074)	(7,090)
Loans, net	$ 208,238	$ 231,105

Construction loans include $1,588 and $1,053 in single-family residential loans, and $6,155 and $4,738 in commercial real estate loans, respectively, at June 30, 2010 and December 31, 2009.
Activity in the ALLL was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Beginning balance	$ 7,396	$ 3,528	$ 7,090	$ 3,119
Provision for loan losses	5,938	1,357	6,686	1,907
Reclassification of allowance for losses on loan-related commitments (1)	12			
Loans charged-off	(3,290)	(893)	(3,813)	(1,036)
Recoveries	18	4	111	6
Ending balance	$ 10,074	$ 3,996	$ 10,074	$ 3,996

(1) Reclassified from accrued interest payable and other liabilities in the consolidated balance sheet.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 3 LOANS (continued)

Individually impaired loans were as follows.

	June 30, 2010	December 31, 2009
Period-end loans with no allocated allowance for loan losses	$ 3,928	$ 6,964
Period-end loans with allocated allowance for loan losses	7,500	6,734
Total	$ 11,428	$ 13,698
Amount of the allowance for loan losses allocated to individually impaired loans	$ 2,811	$ 2,033

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Average of individually impaired loans during the period	$ 10,932	$ 5,675	$ 12,062	$ 3,900
Interest income recognized during impairment	12		15	
Cash-basis interest income recognized				

Nonaccrual loans, foreclosed assets and loans past due over 90 days still on accrual were as follows:

	June 30, 2010	December 31, 2009
Loans past due over 90 days still on accrual	$ 1	$ 14
Nonaccrual loans:		
Commercial	$ 631	$ 217
Single-family residential real estate	273	426
Multi-family residential real estate	4,569	4,406
Commercial real estate	5,016	6,864
Home equity lines of credit	215	1,307
Total nonaccrual loans	$ 10,704	$ 13,220
Foreclosed assets:		
Commercial real estate	2,348	
Total nonperforming assets	$ 13,052	$ 13,220

Nonaccrual loans and loans past due over 90 days still on accrual include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. Foreclosed assets include a single commercial real estate property.

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CENTRAL FEDERAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands except per share data)

NOTE 3 LOANS (continued)

Nonaccrual loans include loans that were modified and identified as troubled debt restructurings, where concessions had been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate, payment extensions, principal forgiveness, and other actions intended to maximize collection. Nonaccruing troubled debt restructurings were as follows:

	June 30, 2010	December 31, 2009
Commercial	$ 182	$ 217
Single-family residential real estate	216	261
Commercial real estate		854
Home equity lines of credit		496
Total	$ 398	$ 1,828

The Company allocated $13 and $511 of specific reserves to loans whose terms have been modified in troubled debt restructurings as of June 30, 2010 and December 31, 2009.

Nonaccrual loans at June 30, 2010 and December 31, 2009, do not include $853 and $1,310, respectively, in troubled debt restructurings where customers have established a sustained period of repayment performance, generally six months, loans are current according to their modified terms and repayment of the remaining contractual payments is expected. These loans are included in impaired loan totals.

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NOTE 4 FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of asset and liability:

Securities available for sale: The fair value of securities available for sale is determined using pricing models that vary based on asset class and include available trade, bid, and other market information or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2).

Derivatives: The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2).

Impaired loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Loan servicing rights: Fair value is based on a valuation model that calculates the present value of estimated future net servicing income (Level 2).

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NOTE 4 FAIR VALUE (continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2010 Using Significant Other Observable Inputs (Level 2)
Assets:	
Securities available for sale:	
Issued by U.S. government-sponsored entities and agencies:	
Mortgage-backed securities residential	$ 2,422
Collateralized mortgage obligations	21,860
Total securities available for sale	$ 24,282
Yield maintenance provisions (embedded derivatives)	$ 874
Liabilities:	
Interest-rate swaps	$ 874

	Fair Value Measurements at December 31, 2009 Using Significant Other Observable Inputs (Level 2)
Assets:	
Securities available for sale:	
Issued by U.S. government-sponsored agencies:	
Mortgage-backed securities residential	$ 5,561
Collateralized mortgage obligations	14,030
Collateralized mortgage obligations issued by private issuers	1,650
Total securities available for sale	$ 21,241
Yield maintenance provisions (embedded derivatives)	$ 480

Liabilities:		
Interest-rate swaps	$	480

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NOTE 4 FAIR VALUE (continued)

Assets Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at June 30, 2010 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 22	$
Impaired loans		4,737

	Fair Value Measurements at December 31, 2009 Using	
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Loan servicing rights	$ 16	$
Impaired loans		6,757

Impaired loan servicing rights, which are carried at fair value, were carried at $22, which was made up of the amortized cost of $27, net of a valuation allowance of $5 at June 30, 2010. Impaired loan servicing rights, which are carried at fair value, were carried at $16, which was made up of the amortized cost of $20, net of a valuation allowance of $4 at December 31, 2009. There was a $1 charge against earnings with respect to servicing rights for the three and six months ended June 30, 2010. There was no charge against earnings with respect to servicing rights for the three and six months ended June 30, 2009.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had an unpaid principal balance of $7,535, with a valuation allowance of $2,798, resulting in a $785 reduction to the valuation allowance for the quarter ended June 30, 2010, and an increase in the valuation allowance of $765 for the six months ended June 30, 2010. The decrease in the valuation allowance for the quarter ended June 30, 2010 included certain impaired loans that were charged-off during the period in the amount of the related valuation allowance, partially offset by additional impaired loans during the period as well as an additional provision of $256 related to a charge-off that exceeded the amount of the recorded valuation allowance. Impaired loans had an unpaid principal balance of $8,790 with a valuation allowance of $2,033 at December 31, 2009. For the quarter ended June 30, 2009 there was an additional provision of $848 recorded for impairment charges, and for the six months ended June 30, 2009 an additional provision of $1,353 was recorded for impairment charges.

During the three and six months ended June 30, 2010, the Company did not have any significant transfers of assets or liabilities between those measured using Level 1 or 2 inputs. The Company recognizes transfers of assets and liabilities between Level 1 and 2 inputs based on the information relating to those assets and liabilities at the end of the reporting period.

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NOTE 4 FAIR VALUE (continued)

The carrying amounts and estimated fair values of financial instruments at June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 13,406	$ 13,406	$ 2,973	$ 2,973
Securities available for sale	24,282	24,282	21,241	21,241
Loans held for sale	10,069	10,156	1,775	1,804
Loans, net	208,238	210,441	231,105	232,595
FHLB stock	1,942	n/a	1,942	n/a
Accrued interest receivable	882	882	984	984
Yield maintenance provisions (embedded derivatives)	874	874	480	480
Financial liabilities:				
Deposits	$ (226,255)	$ (227,442)	$ (211,088)	$ (212,306)
FHLB advances	(23,942)	(24,731)	(32,007)	(32,443)
Subordinated debentures	(5,155)	(1,972)	(5,155)	(1,955)
Accrued interest payable	(216)	(216)	(160)	(160)
Interest-rate swaps	(874)	(874)	(480)	(480)

The methods and assumptions used to estimate fair value are described as follows.

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. The methods for determining the fair values for securities were described previously. Fair value of loans held for sale is based on binding quotes from third party investors. For fixed rate loans or deposits and for variable rate loans with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of Federal Home Loan Bank (FHLB) advances are based on current rates for similar financing. Fair value of subordinated debentures is based on discounted cash flows using current market rates for similar debt. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The method for determining the fair values for derivatives (interest-rate swaps and yield maintenance provisions) was described previously. The fair value of off-balance sheet items is not considered material.

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NOTE 5 FHLB ADVANCES

Advances from the FHLB were as follows:

	Rate	June 30, 2010	December 31, 2009
Fixed-rate advances:			
Maturing January 2010	3.19%	$	$ 5,000
Maturing March 2010	4.96%		1,000
Maturing March 2011	1.90%	2,200	2,200
Maturing April 2011	2.88%	3,000	3,000
Maturing July 2011	3.85%	3,000	3,000
Maturing April 2012	2.30%	5,000	5,000
Maturing June 2012	2.05%	742	742
Maturing January 2014	3.12%	5,000	5,000
Maturing May 2014	3.06%	5,000	5,000
Total		$ 23,942	$ 29,942

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances.
The advances were collateralized as follows:

	June 30, 2010	December 31, 2009
First mortgage loans under a blanket lien arrangement	$ 22,601	$ 25,053
Second mortgages	389	938
Multi-family mortgage loans	10,807	12,703
Home equity lines of credit	12,648	13,331
Commercial real estate loans	2,383	62,313
Securities	11,187	11,045
Total	$ 60,015	$ 125,383

During the current year, commercial real estate loans that were previously pledged as collateral to the FHLB were pledged as collateral with the Federal Reserve Bank (FRB) to increase CFBank s borrowing capacity with the FRB. Based on the collateral pledged to FHLB and CFBank s holdings of FHLB stock, CFBank is eligible to borrow up to a total of $27,388 from the FHLB at June 30, 2010.

Payment information

Payments over the next five years are as follows:

June 30, 2011	$ 5,200
June 30, 2012	8,742
June 30, 2014	10,000
Total	$ 23,942

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NOTE 6 OTHER BORROWINGS

There were no outstanding borrowings with the FRB at June 30, 2010 or December 31, 2009.
Assets pledged as collateral with the FRB were as follows:

	June 30, 2010	December 31, 2009
Commercial loans	$ 15,957	$ 18,407
Commercial real estate loans	32,753	254
	$ 48,710	$ 18,661

Based on this collateral, CFBank is eligible to borrow up to $28,876 from the FRB at June 30, 2010. Commercial real estate loans were previously pledged to the FHLB. However to increase CFBank s borrowing capacity, these loans are now pledged to the FRB. The decline in the pledged loan balances from that shown at December 31, 2009 in Note 5 FHLB Advances, is primarily due to the difference in loan eligibility factors applied by the FRB as compared to the FHLB.

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NOTE 7 STOCK-BASED COMPENSATION

The Company has three stock-based compensation plans (the Plans), as described below, under which awards have been or may be issued. Total compensation cost that was credited to income for those Plans was $21 and $11, respectively, for the three and six months ended June 30, 2010. Compensation cost resulted in a credit to income for the three and six months ended June 30, 2010 due to forfeitures of previous stock option grants and restricted stock awards in excess of the cost of those earned during the periods. Total compensation cost that was charged to income for those plans totaled $12 and $44 respectively for the three and six months ended June 30, 2009. The total income tax (expense) benefit was ($5) and ($2), respectively for the three and six months ended June 30, 2010 and $2 and $10 respectively for the three and six months ended June 30, 2009.

The Plans, which are stockholder-approved, provide for stock option grants and restricted stock awards to directors, officers and employees. The 1999 Stock-Based Incentive Plan, which expired July 13, 2009, provided 193,887 shares for stock option grants and 77,554 shares for restricted stock awards. The 2003 Equity Compensation Plan (2003 Plan) as amended and restated, provided an aggregate of 500,000 shares for stock option grants and restricted stock awards, of which up to 150,000 shares could be awarded in the form of restricted stock awards. The 2009 Equity Compensation Plan, which was approved by stockholders on May 21, 2009, replaced the 2003 Plan and provides 1,000,000 shares, plus any remaining shares available to grant or that are later forfeited or expire under the 2003 Plan, that may be issued as stock option grants, stock appreciation rights or restricted stock awards.

Stock Options

The Plans permit the grant of stock options to directors, officers and employees for up to 1,693,887 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are granted with an exercise price equal to the market price of the Company s common stock on the date of grant, generally have vesting periods ranging from one to five years, and are exercisable for ten years from the date of grant.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company s common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management stock options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Department of the Treasury (Treasury) yield curve in effect at the time of the grant.

The fair value of the options granted during the six months ended June 30, 2009 was determined using the following weighted-average assumptions as of the grant dates. The weighted average fair value of these options at the time of grant was $0.49. There were no options granted during the three and six months ended June 30, 2010, or the three months ended June 30, 2009.

	Six months ended June 30, 2009
Risk-free interest rate	1.64%
Expected term (years)	7
Expected stock price volatility	27%
Dividend yield	3.63%

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CENTRAL FEDERAL CORPORATION
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NOTE 7 STOCK-BASED COMPENSATION (continued)

A summary of stock option activity in the Plans for the six months ended June 30, 2010 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding at beginning of period	310,361	$ 7.89		
Granted				
Exercised				
Forfeited or expired	(75,082)	6.63		
Outstanding at end of period	235,279	$ 8.30	5.9	$
Exercisable at end of period	201,315	$ 9.15	5.5	$

There were no stock options granted during the three and six months ended June 30, 2010. There were no stock options exercised during the three and six months ended June 30, 2010 or 2009.

As of June 30, 2010, there was $3 of total unrecognized compensation cost related to non-vested stock options granted under the Plans. The cost is expected to be recognized over a weighted-average period of .9 years. Substantially all of the 33,964 non-vested stock options at June 30, 2010 are expected to vest.

Restricted Stock Awards

The Plans permit the grant of restricted stock awards to directors, officers and employees. Compensation is recognized over the vesting period of the shares based on the fair value of the stock at grant date. The fair value of the stock was determined using the closing share price on the date of grant and shares have vesting periods ranging from one to five years. There were 1,174,618 shares available to be issued under the Plans at June 30, 2010. There were no shares issued during the three and six months ended June 30, 2010 or 2009.

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NOTE 7 STOCK-BASED COMPENSATION (continued)

A summary of changes in the Company s non-vested restricted shares for the six months ended June 30, 2010 follows:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested at beginning of period	28,733	$ 5.35
Granted		
Vested	(18,526)	6.08
Forfeited	(6,748)	4.03
Non-vested at end of period	3,459	$ 4.03

As of June 30, 2010, there was $3 of total unrecognized compensation cost related to non-vested shares granted under the Plans. The cost is expected to be recognized over a weighted-average period of .7 years. The total fair value of shares vested during the three and six months ended June 30, 2010 was $5 and $24, respectively. The total fair value of shares vested during the three and six months ended June 30, 2009 was $10 and $56, respectively.

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NOTE 8 PREFERRED STOCK

On December 5, 2008, in connection with the Troubled Asset Relief Program (TARP) Capital Purchase Program, established as part of the Emergency Economic Stabilization Act of 2008, the Company issued to the U.S. Treasury 7,225 shares of Central Federal Corporation Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Preferred Stock) for $7,225. The Preferred Stock initially pays quarterly dividends at a five percent annual rate, which increases to nine percent after February 14, 2013, on a liquidation preference of $1,000 per share.

The Preferred Stock has preference over the Company s common stock with respect to the payment of dividends and distribution of the Company s assets in the event of a liquidation or dissolution. Except in certain circumstances, the holders of Preferred Stock have no voting rights. If any quarterly dividend payable on the Preferred Stock is in arrears for six or more quarterly dividend periods (whether consecutive or not), the holders will be entitled to vote for the election of two additional directors. These voting rights terminate when the Company has paid the dividends in full.

As required under the TARP Capital Purchase Program in connection with the sale of the Preferred Stock to the U.S. Treasury, dividend payments on, and repurchases of, the Company s outstanding preferred and common stock are subject to certain restrictions. For as long as any Preferred Stock is outstanding, no dividends may be declared or paid on the Company s outstanding common stock until all accrued and unpaid dividends on Preferred Stock are fully paid. In addition, the U.S. Treasury s consent is required on any increase in quarterly dividends declared on shares of common stock in excess of $.05 per share before December 5, 2011, the third anniversary of the issuance of the Preferred Stock, unless the Preferred Stock is redeemed by the Company or transferred in whole by the U.S. Treasury. Further, the U.S. Treasury s consent is required for any repurchase of any equity securities or trust preferred securities, except for repurchases of Preferred Stock or repurchases of common shares in connection with benefit plans consistent with past practice, before December 5, 2011, the third anniversary of the issuance of the Preferred Stock, unless redeemed by the Company or transferred in whole by the U.S. Treasury.

As a recipient of funding under the TARP Capital Purchase Program, the Company must comply with the executive compensation and corporate governance standards imposed by the American Recovery and Reinvestment Act of 2009 for as long as the U.S. Treasury holds the above securities.

Pursuant to an agreement with Office of Thrift Supervision (OTS) effective May 2010, the Company cannot pay cash dividends on the preferred stock, or its common stock, without the prior, written non-objection of the OTS.

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CENTRAL FEDERAL CORPORATION
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NOTE 9 REGULATORY CAPITAL MATTERS

CFBank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of June 30, 2010, CFBank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At June 30, 2010, and at December 31, 2009, CFBank was well capitalized under the regulatory framework for prompt corrective action.

Actual and required capital amounts and ratios are presented below:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2010						
Total Capital to risk weighted assets	$ 21,456	10.0%	$ 17,151	8.0%	$ 21,439	10.0%
Tier 1 (Core) Capital to risk weighted assets	18,720	8.7%	8,575	4.0%	12,863	6.0%
Tier 1 (Core) Capital to adjusted total assets	18,720	6.9%	10,905	4.0%	13,631	5.0%
Tangible Capital to adjusted total assets	18,720	6.9%	4,089	1.5%	N/A	N/A

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NOTE 9 REGULATORY CAPITAL MATTERS (continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009						
Total Capital to risk weighted assets	$ 26,978	11.7%	$ 18,417	8.0%	$ 23,021	10.0%
Tier 1 (Core) Capital to risk weighted assets	24,073	10.5%	9,208	4.0%	13,813	6.0%
Tier 1 (Core) Capital to adjusted total assets	24,073	8.9%	10,850	4.0%	13,563	5.0%
Tangible Capital to adjusted total assets	24,073	8.9%	4,069	1.5%	N/A	N/A

The Qualified Thrift Lender test requires at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or CFBank must convert to a commercial bank charter. Management believes that this test is met.

CFBank converted from a mutual to a stock institution in 1998, and a liquidation account was established at $14,300, which was the net worth reported in the conversion prospectus. The liquidation account represents a calculated amount for the purposes described below, and it does not represent actual funds included in the consolidated financial statements of the Company. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if CFBank liquidated. Dividends may not reduce CFBank s shareholder s equity below the required liquidation account balance.

Dividend Restrictions The Holding Company s principal source of funds for dividend payments is dividends received from CFBank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2010, CFBank must have approval prior to any dividend payments. See Note 8 Preferred Stock for a description of restrictions on the payment of dividends on the Company s common stock as a result of the Holding Company s participation in the TARP Capital Purchase Program and pursuant to a May 2010 agreement with OTS.

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NOTE 10 OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) and related tax effects are as follows for the three and six months ended June 30, 2010 and 2009.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Change in unrealized holding gains (losses) on securities available for sale	$ 81	$ (37)	$ 35	$ 229
Reclassification adjustment for gains realized in income			(240)	
Net change in unrealized gains (losses)	81	(37)	(205)	229
Tax effect		13		(78)
Net of tax amount	$ 81	$ (24)	$ (205)	$ 151

The following is a summary of the accumulated other comprehensive income balances net of tax.

	December 31, 2009	Current period change	June 30, 2010
Unrealized gains (losses) on securities available for sale	$ 704	$ (205)	$ 499

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CENTRAL FEDERAL CORPORATION
PART 1. Item 2.
MANAGEMENT S DISCUSSION AND ANALYSIS

The following analysis discusses changes in financial condition and results of operations during the periods included in the Consolidated Financial Statements which are part of this filing.

Forward-Looking Statements

Statements in this Form 10-Q that are not statements of historical fact are forward-looking statements. 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 Company or its management or Board of Directors; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as estimate, strategy, may, believe, antici expect, predict, will, intend, plan, targeted, and the negative of these terms, or similar expressions, are in 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. The following factors could cause such differences:

- a continuation of current high unemployment rates and difficult economic conditions or adverse changes in general economic conditions and economic conditions in the markets we serve, any of which may affect, among other things, our level of nonperforming assets, charge-offs, and provision for loan loss expense;
- changes in interest rates that may reduce net interest margin and impact funding sources;
- changes in market rates and prices, including real estate values, which may adversely impact the value of financial products including securities, loans and deposits;
- changes in tax laws, rules and regulations;
- various monetary and fiscal policies and regulations, including those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS);
- competition with other local and regional commercial banks, savings banks, credit unions and other non-bank financial institutions;
- our ability to grow our core businesses;
- technological factors which may affect our operations, pricing, products and services;
- unanticipated litigation, claims or assessments; and
- management s ability to manage these and other risks.

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 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.

Other risks are detailed in our filings with the Securities and Exchange Commission, including our Form 10-K filed for 2009, all of which are difficult to predict and many of which are beyond our control.

Business Overview

Central Federal Corporation (hereafter referred to, together with its subsidiaries, as the Company and individually as the Holding Company) is a savings and loan holding company incorporated in Delaware in 1998. Substantially all of our business is the operation of our principal subsidiary, CFBank, a federally chartered savings association formed in Ohio in 1892.

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CENTRAL FEDERAL CORPORATION
PART 1. Item 2.
MANAGEMENT S DISCUSSION AND ANALYSIS

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, remote deposit, corporate cash management, and telephone and mobile banking. We attract 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 consumers, small businesses, and small business owners.

General

Our net income is dependent primarily on net interest income, which is the difference between the interest income earned on loans and securities and the cost of funds, consisting of interest paid on deposits and borrowed funds. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows.

Net income is also affected by, among other things, provisions for loan losses, loan fee income, service charges, gains on loan sales, operating expenses, and franchise and income taxes. Operating expenses principally consist of employee compensation and benefits, occupancy, FDIC insurance premiums, and other general and administrative expenses. In general, results of operations are significantly affected by general economic and competitive conditions, changes in market interest rates and real estate values, government policies, and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may also materially impact our performance.

As a result of the current economic recession, which has included failures of financial institutions, investments in banks and other companies by the United States government, and government-sponsored economic stimulus packages, one area of public and political focus is how and the extent to which financial institutions are regulated by the government. The current regulatory environment may result in new or revised regulations that could have a material adverse impact on our performance.

On July 21, 2010, President Obama signed into law the Frank-Dodd Wall Street and Consumer Protection Act (Financial Reform) that could impact the performance of the Company in future periods. The Financial Reform includes numerous provisions designed to strengthen the financial industry, enhance consumer protection, expand disclosures and provide for transparency. Some of these provisions include changes to FDIC insurance coverage, which includes a permanent increase in the coverage to $250,000 and extending the Temporary Account Guarantee Program to December 31, 2010. Additional provisions create a Consumer Protection Bureau, which is authorized to write rules on all consumer financial products, and a Financial Services Oversight Council, which is empowered to determine which entities are systematically significant and require tougher regulations and is charged with reviewing, and when appropriate, submitting comments to the Securities and Exchange Commission and Financial Accounting Standards Board with respect to existing or proposed accounting principles, standards or procedures. Further, the Financial Reform retains the Thrift charter and merges the Office of Thrift Supervision, the regulator of CFBank, into the Office of the Comptroller of the Currency. Although the aforementioned provisions are only a few of the numerous ones included in the Financial Reform, the full impact of the entire Financial Reform will not be known until the full implementation is completed, which may take more than 12 months.

The significant volatility and disruption in capital, credit and financial markets experienced in 2008 continued to have a detrimental effect on our national and local economies in 2009 and for the six months ended June 30, 2010. These effects include declining real estate values; continued tightening in the availability of credit; illiquidity in certain securities markets; increasing loan delinquencies, foreclosures, personal and business bankruptcies and unemployment rates; declining consumer confidence and spending; significant loan charge-offs and write-downs of asset values by financial institutions and government-sponsored agencies; and a reduction of manufacturing and service business activity and international trade. These conditions also adversely affected the stock market generally, and have contributed to significant declines in the trading prices of financial institution stocks. We do not expect these difficult

market conditions to improve in the short term, and a continuation or worsening of these conditions could increase their adverse effects. Adverse effects of these conditions include increases in loan delinquencies and charge-offs; increases in our loan loss reserves based on general economic factors; increases to our specific loan loss reserves due to the impact of these conditions on specific borrowers or the collateral for their loans; increases in regulatory and compliance costs; and declines in the trading price of our common stock.

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Other than as discussed in this Form 10-Q and noted in the following narrative, as of June 30, 2010 we were not aware of any market or institutional trends, other events, or uncertainties that are expected to have a material effect on liquidity, capital resources or operations. We were also not aware of any recommendations by regulators which would have a material effect if implemented, except as described in this Form 10-Q and in the following narrative.

Management s discussion and analysis represents a review of our consolidated financial condition and results of operations. This review should be read in conjunction with our consolidated financial statements and related notes.

Financial Condition

General. Assets totaled $275.1 million at June 30, 2010 and increased $1.4 million, or 0.5%, from $273.7 million at December 31, 2009. The increase was due to a $10.4 million increase in cash and cash equivalents, an $8.3 million increase in loans held for sale, and a $2.3 million increase in foreclosed assets, partially offset by a $22.9 million decrease in net loan balances.

Cash and cash equivalents. Cash and cash equivalents totaled $13.4 million at June 30, 2010 and increased $10.4 million from $3.0 million at December 31, 2009. The increase in cash and cash equivalents was a result of building on-balance-sheet liquidity. The increase in liquidity was accomplished through the purchase of brokered deposits, primarily in the first quarter of 2010, which were also used to lock the cost of longer-term liabilities at low current market interest rates. Liquidity was also increased by proceeds from the sale of a $4.3 million auto loan portfolio, which also reduced credit risk associated with these loans.

Securities. Securities available for sale totaled $24.3 million at June 30, 2010, and increased $3.0 million, or 14.3%, compared to $21.2 million at December 31, 2009 due to purchases during the period exceeding sales, scheduled maturities and repayments.

Loans held for sale. Loans held for sale totaled $10.1 million at June 30, 2010 and increased $8.3 million, from $1.8 million at December 31, 2009. The increase was primarily due to $5.8 million of commercial real estate and multi-family loans transferred from portfolio loans to loans held for sale at June 30, 2010. Proceeds from the sale of the loans, which were sold at par, were received on July 1, 2010. The sale will have a positive impact on CFBank s total risk-based capital ratio as these loans consisted primarily of 100% risk-weighted assets, with a smaller portion which were at 50%, and the proceeds of the sale will be reinvested in 0% risk-weighted assets. The increase in loans held for sale also included a $2.5 million increase in mortgage loans held for sale that had not been funded by the investors as of June 30, 2010.

Loans. Net loans totaled $208.2 million at June 30, 2010 and decreased $22.9 million, or 9.9%, from $231.1 million at December 31, 2009. The decrease was primarily due to lower commercial real estate and consumer loan balances and, to a lesser extent, lower multi-family and single-family residential mortgage balances, as well as a $3.0 million increase in the ALLL. Commercial, commercial real estate and multi-family loans, including the related construction loans decreased $11.8 million, or 6.5%, and totaled $169.8 million at June 30, 2010. The decrease was primarily in commercial real estate loan balances, including the related construction loans which decreased $11.2 million due to the transfer of $4.1 million to loans held for sale and $2.3 million to foreclosed assets, $2.8 million in net charge-offs, and principal repayments and payoffs in excess of current year originations. Multi-family loans declined by $1.8 million primarily related to the transfer of $1.7 million to loans held for sale. Consumer loans totaled $20.1 million at June 30, 2010 and decreased $6.0 million, or 23.0%, due to the sale of a $4.3 million auto loan portfolio and repayments of auto loans and home equity lines of credit. Single-family residential mortgage loans, including the related construction loans totaled $28.4 million at June 30, 2010 and decreased $2.1 million, or 6.9%, from $30.5 million at December 31, 2009. The decrease in mortgage loans was due to current period principal repayments in excess of loans originated for portfolio.

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Allowance for loan losses. The allowance for loan losses (ALLL) totaled $10.1 million at June 30, 2010 and increased $3.0 million, or 42.1% from $7.1 million at December 31, 2009. The ratio of the ALLL to total loans totaled 4.61% at June 30, 2010, compared to 2.98% at December 31, 2009.

In June 2010, the new management team implemented several significant actions to assess the credit quality of existing loans and loan relationships and improve our lending operations. These steps included: (1) independent loan reviews covering in excess of 80% of the commercial, commercial real estate and multi-family residential loan portfolio; (2) an independent review to assess the methodology used to determine the level of the allowance for loan and lease losses (ALLL); (3) the addition of new management to direct our commercial banking activities; and (4) hiring a loan workout firm to assist in addressing troubled loan relationships. These steps were designed to assess credit quality, improve collection and workout efforts with troubled borrowers, and enhance the loan underwriting and approval process.

The ALLL is a valuation allowance for probable incurred credit losses. The ALLL methodology is designed as part of a thorough process that incorporates management s current judgments about the credit quality of the loan portfolio into a determination of the ALLL in accordance with generally accepted accounting principles and supervisory guidance. Management analyzes the adequacy of the ALLL quarterly through reviews of the loan portfolio, including the nature and volume of the loan portfolio and segments of the portfolio; industry and loan concentrations; historical loss experience; delinquency statistics and the level of nonperforming loans; specific problem loans; the ability of borrowers to meet loan terms; an evaluation of collateral securing loans and the market for various types of collateral; various collection strategies; current economic condition, trends and outlook; and other factors that warrant recognition in providing for an adequate ALLL. Based on the variables involved and the fact that management must make judgments about outcomes that are uncertain, the determination of the ALLL is considered to be a critical accounting policy. See the Critical Accounting Policies section of this Form 10-Q for additional discussion.

The ALLL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when full payment under the loan terms is not expected. Commercial, commercial real estate and multi-family residential loans are individually evaluated for impairment when 90 days delinquent and adversely classified, regardless of size. Loans over $500,000 are individually evaluated for impairment when they are 90 days past due, or earlier than 90 days past due if information regarding the payment capacity of the borrower indicates that payment in full according to the loan terms is doubtful. Loans for which the terms have been modified to grant concessions, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. If a loan is determined to be impaired, the loan is evaluated to determine whether an impairment loss should be recognized, either through a write-off or specific valuation allowance, so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate, or at the fair value of collateral, less costs to sell, if repayment is expected solely from the collateral. Large groups of smaller balance loans, such as consumer and single-family residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Nonperforming loans, which are nonaccrual loans and loans at least 90 days past due but still accruing interest, decreased $2.5 million, or 19.0%, and totaled $10.7 million at June 30, 2010, compared to $13.2 million at December 31, 2009. The decrease in nonperforming loans was primarily due to $3.8 million in loan charge-offs, a $2.3 million commercial real estate property transferred to foreclosed assets, and, to a lesser extent, loan payments and proceeds from the sale of the underlying collateral of various loans, partially offset by $3.8 million in additional loans that became nonperforming during the six months ended June 30, 2010. Nonperforming loans totaled 4.90% of total loans at June 30, 2010, compared to 5.56% of total loans at December 31, 2009. See Note 3 to the consolidated financial statements included in this report on Form 10-Q for additional information regarding nonperforming loans.

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Individually impaired loans totaled $11.4 million at June 30, 2010, and decreased $2.3 million, or 16.6%, from $13.7 million at December 31, 2009. The amount of the ALLL specifically allocated to individually impaired loans totaled $2.8 million at June 30, 2010, compared to $2.0 million at December 31, 2009. At June 30, 2010, the allowance specifically allocated included $1.4 million to five commercial real estate loans, $437,000 to two commercial loans, and $1.0 million to five multi-family loans. At December 31, 2009, the allowance specifically allocated included $1.1 million to three commercial real estate loans, $11,000 to one commercial loan, $376,000 to three multi-family loans, and $500,000 to one home equity line of credit. The specific reserve on impaired loans is based on management s estimate of the fair value of collateral securing the loans, or based on projected cash flows from the sale of the underlying collateral and payments from the borrowers. The amount ultimately charged-off for these loans may be different from the specific reserve, as the ultimate liquidation of the collateral and/or projected cash flows may be different from management s estimates. Impaired loans totaling $853,000 at June 30, 2010 are not included in nonperforming loans as they are troubled debt restructurings where the borrowers have established a sustained period of repayment performance, generally six months, the loans are current according to their modified terms, and repayment of the remaining contractual payments is expected.

The general component of the ALLL covers loans not classified as impaired and is based on historical loss experience, adjusted for current factors. Current factors considered include, but are not limited to, management s oversight of the portfolio, including lending policies and procedures; nature, level and trend of the portfolio, including past due and nonperforming loans, loan concentrations, loan terms and other characteristics; current economic conditions and outlook; collateral values; and other items. The general ALLL is calculated based on CFBank s loan balances and actual historical payment default rates for individual loans with payment defaults. For loans with no actual payment default history, industry estimates of payment default rates are applied, based on the applicable property types in the state where the collateral is located. Results are then scaled based on CFBank s internal loan risk ratings, increasing the probability of default on loans with higher risk ratings, and industry loss rates are applied based on loan type. Industry estimates of payment default rates and industry loss rates are based on information compiled by the FDIC.

Industry information is adjusted based on management s judgment regarding items specific to CFBank, and the current factors discussed previously. The adjustment process is dynamic, as current experience adds to the historical information, and economic conditions and outlook migrate over time. Specifically, industry information is adjusted by comparing the historical payment default rates (CFBank historical default rates and industry estimates of payment default rates) against the current rate of payment default to determine if the current level is high or low compared to historical rates, or rising or falling in light of the current economic outlook. Industry information is adjusted by comparison to CFBank s historical one year loss rates, as well as the trend in those loss rates, past due, nonaccrual and classified loans. This adjustment process is performed for each segment of the portfolio. Commercial loans are segregated by secured and unsecured amounts. Commercial real estate loans are segregated by permanent mortgages on commercial real estate, land loans, and construction loans. Multi-family residential real estate loans are segregated by permanent mortgages on multi-family real estate, and construction loans. Single-family residential loans are segregated by first liens, junior liens, and construction loans. Consumer loans are segregated by home equity lines of credit (which are further segregated by loans originated by CFBank, and loans purchased), auto loans, credit cards, loans on deposits, and other consumer loans. These individual segments are then further segregated by internal loan risk ratings.

All lending activity involves risks of loan losses. Certain types of loans, such as option adjustable rate mortgage (ARM) products, junior lien mortgages, high loan-to-value ratio mortgages, interest only loans, subprime loans, and loans with initial teaser rates, can have a greater risk of non-collection than other loans. CFBank has not engaged in subprime lending, or used option ARM products, or loans with initial teaser rates.

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Unsecured commercial loans may present a higher risk of non-collection than secured commercial loans. Unsecured commercial loans totaled $3.6 million, or 8.2% of the commercial loan portfolio at June 30, 2010. The unsecured loans are primarily lines of credit to small businesses in CFBank s market area and are guaranteed by the small business owners. At June 30, 2010, one loan for $182,000 was nonaccrual, while none of the remaining unsecured loans were 30 days or more delinquent.

One of the more notable recessionary effects nationwide has been the reduction in real estate values. Real estate values in Ohio did not experience the dramatic increase prior to the recession that many other parts of the country did and, as a result, the declines have not been as significant, comparatively. However, real estate is the collateral on a substantial portion of the Company s loans, and it is critical to determine the impact of any declining values in the allowance determination. For individual loans evaluated for impairment, current appraisals were obtained wherever practical, or if not available, estimated declines in value were considered in the evaluation process. Within the real estate loan portfolios, in the aggregate, including single-family, multi-family and commercial real estate, more than 90% of the portfolio has loan-to-value ratios of 85% or less, generally based on the value of the collateral at origination, allowing for some decline in real estate values without exposing the Company to loss. Declining collateral values and a continued adverse economic outlook have been considered in the ALLL at June 30, 2010. However, sustained recessionary pressure and declining real estate values in excess of management s estimates, particularly with regard to commercial real estate and multi-family real estate, may expose the Company to additional losses.

Home equity lines of credit include both purchased loans and loans we originated for portfolio. In 2005 and 2006, we purchased home equity lines of credit collateralized by properties located throughout the United States, including geographic areas that have experienced significant declines in housing values, such as California, Virginia and Florida. The outstanding balance of the purchased home equity lines of credit totaled $3.9 million at June 30, 2010, and $1.9 million, or 49.4%, of the balances are collateralized by properties in these states. The collateral values associated with certain loans in these states have declined by up to 40% since these loans were originated in 2005 and 2006 and as a result, some loan balances exceed collateral values. At June 30, 2010, there were 7 loans in which the loan balances exceeded collateral values by an aggregate amount of $287,000. We have experienced increased write-offs in the purchased portfolio as the depressed state of the housing market and general economy has continued and, through the six months ended June 30 2010, four loans totaling $720,000 were written off. We continue to monitor collateral values and borrower FICO® scores and, when the situation warrants, have frozen the lines of credit.

Management s loan review process is an integral part of identifying problem loans and determining the ALLL. 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. Credit reviews for these loan types are performed annually, and loan officers maintain close contact with borrowers between annual reviews. Adjustments to loan risk ratings are based on the annual reviews, or any time loan officers receive information that may affect risk ratings. Additionally, an independent review of commercial, commercial real estate and multi-family residential loans, which was performed at least annually prior to June 2010, will be performed semi-annually. Management uses the results of these reviews to help determine the effectiveness of the existing policies and procedures, and to provide an independent assessment of our internal loan risk rating system.

We have incorporated the OTS internal asset classifications as a part of our credit monitoring system and internal loan risk rating system. In accordance with regulations, problem assets are classified as substandard, doubtful or loss, and the classifications are subject to review by the OTS. An asset is considered substandard under the regulations if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. An asset considered doubtful under the regulations 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, conditions and values, highly questionable and improbable. Assets considered loss under the regulations are those considered uncollectible and having so little value that their continuance as assets without the establishment of a specific loss allowance is not warranted. Assets are designated special mention when they posses weaknesses but

do not currently expose the insured institution to sufficient risk to warrant classification in one of these problem asset categories.

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The following table presents information on classified and criticized loans as of June 30, 2010 and December 31, 2009. No loans were classified doubtful or loss at either date. This table includes nonperforming loans as of each date.

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Special mention		
Commercial	$ 10,703	$ 3,892
Multi-family residential real estate	6,565	3,143
Commercial real estate	10,337	1,432
Home equity lines of credit	3,810	3,894
Total	$ 31,415	$ 12,361
Substandard		
Commercial	$ 4,168	$ 317
Single-family residential real estate	273	426
Multi-family residential real estate	10,170	5,671
Commercial real estate	9,972	10,723
Home equity lines of credit	215	1,307
Other consumer loans	1	14
Total	$ 24,799	$ 18,458

The increase in loans classified special mention and substandard was due to the increasing duration and lingering nature of the current recessionary economic environment, which we do not expect to improve in the near term, and its continued detrimental effects on our borrowers, including deterioration in client business performance, declines in borrowers cash flow, and lower collateral values.

Management's loan review process includes the identification of substandard loans where accrual of interest continues because the loans are under 90 days delinquent and/or the loans are well secured, a complete documentation review had been performed, and the loans are in the active process of being collected, but the loans exhibit some type of weakness that could lead to nonaccrual status in the future. At June 30, 2010, in addition to the nonperforming loans discussed previously, eight commercial loans totaling $3.5 million, five commercial real estate loans totaling $5.0 million and five multi-family residential real estate loans totaling $5.6 million were classified as substandard. At December 31, 2009, in addition to the nonperforming loans discussed previously, a $100,000 commercial loan, four commercial real estate loans totaling $3.9 million, and a $1.3 million multi-family residential real estate loan were classified as substandard.

We believe the ALLL is adequate to absorb probable incurred credit losses in the loan portfolio as of June 30, 2010; however, future additions to the allowance may be necessary based on factors including, but not limited to, further deterioration in client business performance, continued or deepening recessionary economic conditions, declines in borrowers cash flows, and market conditions which result in lower real estate values. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the ALLL. Such agencies may require additional provisions for loan losses based on judgments and estimates that differ from those used by management, or information available at the time of their review. Management continues to diligently monitor credit quality in the existing portfolio and analyze potential loan opportunities carefully in order to manage credit risk. An increase in the

ALLL and loan losses could occur if economic conditions and factors which affect credit quality, real estate values and general business conditions continue to worsen or do not improve.

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Foreclosed assets. Foreclosed assets totaled $2.3 million at June 30, 2010. There were no foreclosed assets at December 31, 2009. Foreclosed assets consist of approximately 42 acres of undeveloped land located in Columbus, Ohio that had been previously financed for development purposes. Due to the adverse economic conditions impacting the borrower s capacity to meet the contractual terms of the loan, this property was acquired by the Bank through foreclosure.

Deposits. Deposits totaled $226.3 million at June 30, 2010 and increased $15.2 million, or 7.2%, from $211.1 million at December 31, 2009. The increase was due to a $7.3 million increase in certificate of deposit accounts, a $2.4 million increase in money market accounts, a $1.1 million increase in savings accounts, a $721,000 increase in interest bearing checking accounts, and a $3.6 million increase in noninterest bearing checking accounts..

CFBank is a participant in the Certificate of Deposit Account Registry Service® (CDARS) program, a network of banks that allows us to provide our customers with FDIC insurance coverage on certificate of deposit balances up to $50 million. Customer balances in the CDARS program decreased $4.9 million from December 31, 2009 and totaled $32.2 million at June 30, 2010. The current period decrease in CDARS account balances was a result of customers transferring these funds into CFBank money market accounts, which are more liquid, higher yielding accounts. CDARS balances are considered brokered deposits by regulations. Not considering CDARS deposits, brokered deposits totaled $33.3 million at June 30, 2010 and increased $17.0 million from the end of 2009. The increase in brokered deposits was based on CFBank s asset liability management strategies to build on-balance- sheet liquidity and lock the cost of longer-term liabilities at low current market interest rates available. See the section titled Liquidity and Capital Resources for additional information regarding regulatory restrictions on brokered deposits.

Certificate of deposit accounts increased $7.3 million during the six months ended June 30, 2010 due to a $17.0 million increase in brokered deposits offset by a $4.9 million decrease in CDARS deposits and a $4.8 million decrease in retail certificate of deposit accounts. Retail certificate of deposit accounts decreased primarily due to management s unwillingness to match significantly above-market rates by some competitors, primarily in CFBank s Columbiana County, Ohio market area.

Money market account balances increased $2.4 million through June 30, 2010 due to competitive rates offered by CFBank and the transfer of maturing CDARS balances by customers seeking increased liquidity and higher yields.

Noninterest bearing checking account balances increased $3.6 million, or 21.0%, during the six months ended June 30, 2010 as a result of our continued success in building complete banking relationships with commercial clients.

CFBank is a participant in the FDIC s Transaction Account Guarantee Program (TAGP). Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the TAGP is in addition to, and separate from, the coverage available under the FDIC s general deposit insurance rules.

Short-term FHLB advances. Short-term FHLB advances decreased $2.1 million from the end of 2009. Overnight advances were repaid with funds provided by the increase in on-balance-sheet liquidity.

Long-term FHLB advances. Long-term FHLB advances totaled $23.9 million at June 30, 2010 and decreased $6.0 million, or 20.0%, from $29.9 million at December 31, 2009 due to repayment of maturing advances in accordance with the Company s liquidity management program.

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Stockholders equity. Stockholders equity totaled $17.2 million at June 30, 2010 and decreased $6.1 million through June 30, 2010. The decrease was due to the $5.6 million net loss, $204,000 in preferred stock dividends and accretion of unearned discount on preferred stock related to the TARP Capital Purchase Program, and a $205,000 decrease in unrealized gains in the securities portfolio.

Since receipt of $7.2 million in TARP Capital Purchase Program proceeds in December 2008 and through June 30, 2010, loan originations totaled $160.1 million and included $110.4 million in single-family mortgage loans, $48.6 million in commercial, commercial real estate and multi-family mortgage loans and $1.1 million in home equity lines of credit.

Comparison of the Results of Operations for the Three Months Ended June 30, 2010 and 2009

General. Net loss totaled $5.6 million, or $1.38 per diluted common share for the quarter ended June 30, 2010, compared to a net loss of $762,000, or $.21 per diluted common share, for the quarter ended June 30, 2009. Performance for both the quarter ended June 30, 2010 and June 30, 2009 was significantly impacted by the provision for loan losses, which totaled $5.9 million and $1.4 million, respectively. The increase in the provision for loan losses during the current year period was primarily a result of adverse economic conditions that continued to negatively impact our borrowers, our loan performance and our loan quality.

Net interest income. Net interest income is a significant component of net income, and consists of the difference between interest income generated on interest-earning assets and interest expense incurred on interest-bearing liabilities. Net interest income is primarily affected by the volumes, interest rates and composition of interest-earning assets and interest-bearing liabilities. The tables titled *Average Balances, Interest Rates and Yields* and *Rate/Volume Analysis of Net Interest Income* provide important information on factors impacting net interest income and should be read in conjunction with this discussion of net interest income.

Net interest income totaled $2.2 million and increased $108,000, or 5.2%, in the quarter ended June 30, 2010, compared to the $2.1 million in the quarter ended June 30, 2009. The increase in net interest income was due to a higher net interest margin in the second quarter of 2010 compared to the prior year quarter. Net interest margin increased 20 basis points (bp) to 3.23% in the second quarter of 2010, compared to 3.03% in the second quarter of 2009, due to a larger decline in funding costs than in asset yields. The average cost of average interest-bearing liabilities decreased 80 bp and the average yield on average interest-earning assets decreased 47 bp in the quarter ended June 30, 2010, compared to the quarter ended June 30, 2009. An increase in noninterest bearing deposits, which totaled $20.7 million at June 30, 2010, and increased 21.0% from $17.1 million at December 31, 2009, had a positive impact on our net interest margin, as well as the sustained low market interest rate environment which continued to have a favorable impact on our cost of funds.

Interest income. Interest income totaled $3.3 million and decreased $362,000, or 9.9%, for the quarter ended June 30, 2010, compared to $3.6 million for the quarter ended June 30, 2009. The decrease in interest income was largely due to a decrease in income on loans and securities. Interest income on loans decreased $252,000, or 7.6%, to $3.1 million in the second quarter of 2010, from $3.3 million in the second quarter of 2009. The decrease in income on loans was primarily due to a decline in the average balance of loans and to a lesser extent a decline in the average yield on loans. The average balance of loans outstanding decreased $16.8 million, or 7.0%, to $221.8 million in the second quarter of 2010, from $238.6 million in the second quarter of 2009. The decrease in the average balance of loans was due to $8.6 million in net loan write-offs during the twelve months ended June 30, 2010, the sale of $4.3 million in auto loans during the first quarter of 2010, and principal repayments and loan payoffs offset by originations. The average yield on loans decreased 4 bp to 5.54% in the second quarter of 2010, from 5.58% in the second quarter of 2009. The decrease in yield on loans was due to the origination of new loans at lower market interest rates, lower reset rates on existing adjustable rate loans, and an increase in nonperforming loans**.** Interest income on securities decreased $116,000, or 40.3%, to $172,000 for the second quarter of 2010, from $288,000 in the second quarter of 2009. The decrease in income on securities was due to a decrease in the average yield on securities partially offset by an increase in the average balance of securities. The average yield on securities decreased 222 bp to 3.05% in the second quarter

of 2010, from 5.27% in the second quarter of 2009. The decrease in the average yield on securities was due to securities purchases at lower market interest rates in the current period. The average balance of securities increased $534,000, or 2.4%, to $23.2 million in the second quarter of 2010, from $22.7 million in the second quarter of 2009. The increase in the average balance of securities was due to purchases in excess of sales, maturities and repayments of securities.

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Interest expense. Interest expense decreased $470,000, or 29.9%, to $1.1 million for the second quarter of 2010, compared to $1.6 million in the second quarter of 2009. The decrease in interest expense resulted from lower deposit and borrowing costs and a decrease in the average balance of borrowings outstanding, partially offset by an increase in the average balance of deposits. Interest expense on deposits decreased $332,000, or 27.2%, to $890,000 in the second quarter of 2010, from $1.2 million in the second quarter of 2009**.** The decrease in interest expense on deposits was due to a decline in the average cost of deposits, partially offset by an increase in average deposit balances. The average cost of deposits decreased 79 bp to 1.67% in the second quarter of 2010, from 2.46% in the second quarter of 2009, due to sustained low market interest rates and reduced deposit pricing in the current year quarter. Average deposit balances increased $14.7 million, or 7.4%, to $213.1 million in the second quarter of 2010, from $198.4 million in the second quarter of 2009. The increase in average deposit balances was due to growth in money market, savings and checking account balances. Interest expense on FHLB advances and other borrowings, including subordinated debentures, decreased $138,000, or 39.5%, to $211,000 in the second quarter of 2010, from $349,000 in the second quarter of 2009. The decrease in expense on FHLB advances and other borrowings, including subordinated debentures, was primarily due to a decrease in average balances and, to a lesser extent, a decline in the average cost of these funds. The average balance of FHLB advances and other borrowings, including subordinated debentures, decreased $12.0 million, or 29.2%, to $29.1 million in the second quarter of 2010, from $41.1 million in the second quarter of 2009. The decrease in the average balance was primarily due to repayment of FHLB advances with funds from the growth in deposits. The average cost of borrowings decreased 45 bp to 2.90% in the second quarter of 2010, from 3.35% in the second quarter of 2009. The decrease in borrowing cost was due to lower market interest rates in the current year period.

Provision for loan losses. Provisions for loan losses are based on management s estimate of probable incurred credit losses in the loan portfolio and the resultant ALLL required. Based on review of the loan portfolio at June 30, 2010, the provision totaled $5.9 million for the quarter ended June 30, 2010, compared to $1.4 million for the quarter ended June 30, 2009. The increase in the provision for loan losses during the current year period was primarily a result of adverse economic conditions that continued to negatively impact our borrowers, our loan performance and our loan quality. See the previous section titled Financial Condition *Allowance for loan losses* for additional information. Net charge-offs totaled $3.3 million, or 5.84% of average loans on an annualized basis for the quarter ended June 30, 2010, compared to $889,000, or 1.49% of average loans on an annualized basis for the quarter ended June 30, 2009. The increase in net charge-offs during the three months ended June 30, 2010 was primarily related to commercial real estate loans and home equity lines of credit. Net charge-offs in the second quarter of 2009 were primarily in the commercial real estate and commercial portfolios and to a lesser extent the single-family residential mortgage portfolio.

Noninterest income. Noninterest income totaled $293,000 for the quarter ended June 30, 2010 and decreased $8,000, or 2.7%, compared to the quarter ended June 30, 2009. The decrease was due to a $5,000 decline in service charges on deposit accounts, substantially due to a decline in non-sufficient funds (NSF) fees, as well as a $5,000 decline in other income.

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The largest recurring component of noninterest income is net gains on sales of loans. Net gains on the sale of loans totaled $181,000 for the second quarter of 2010 compared to $179,000 for the second quarter of 2009. Despite the continued economic weakness negatively impacting the housing market, CFBank s mortgage professionals continue to gain market share by building relationships with local realtors and individual borrowers. On May 17, 2010, CFBank opened a residential mortgage lending office in Green, Ohio to expand its market presence. In July 2010, a mortgage underwriter was added to the team to further enhance our mortgage lending capabilities.

Noninterest expense. Noninterest expense decreased $83,000, or 3.8%, and totaled $2.1 million for the second quarter of 2010, compared to $2.2 million for the second quarter of 2009. The decrease in noninterest expense during the three months ended June 30, 2010 was primarily due to a decrease in occupancy and equipment expenses and FDIC premiums, partially offset by an increase in professional fees, advertising and promotion and depreciation. Occupancy and equipment expense decreased $94,000, or 67.6%, and totaled $45,000 for the three months ended June 30, 2010, compared to $139,000 in the prior year quarter. This decrease was due to the elimination of rent expense for the Company s Fairlawn office as a result of the Holding Company s October 2009 acquisition of the remaining two-thirds interest in Smith Ghent LLC, which owns the Fairlawn office building. FDIC premiums decreased $170,000 and totaled $101,000 for the three months ended June 30 2010, compared $271,000 in the prior year quarter. The decrease was primarily related to a $128,000 special assessment to restore the reserve ratio of the Deposit Insurance Fund levied by the FDIC in the second quarter of 2009. Professional fees increased $167,000, and totaled $272,000 for the three months ended June 30 2010, compared to $105,000 in the prior year quarter. The increase was primarily related to legal costs associated with nonperforming loans and, to a lesser extent, costs related to the additional independent loan and ALLL reviews, discussed previously, in the current year quarter. Advertising and promotion increased $25,000, and totaled $27,000 for the three months ended June 30 2010, compared to $2,000 in the prior year quarter. The increase was primarily related to costs associated with enhancement of marketing and presentation materials related to CFBank s products and services. Depreciation expense increased $16,000, and totaled $133,000 for the three months ended June 30 2010, compared $117,000 in the prior year quarter. The increase was due to depreciation expense related to the Company s Fairlawn office as a result of the Holding Company s acquisition of the remaining two-thirds interest in Smith Ghent LLC, as previously discussed.

The ratio of noninterest expense to average assets improved to 2.92% for the quarter ended June 30, 2010, compared to 3.01% for the quarter ended June 30, 2009. The efficiency ratio improved to 84.44% for the quarter ended June 30, 2010, compared to 91.91% for quarter ended June 30, 2009, primarily due to the increase in net interest income in the quarter ended June 30, 2010.

Income taxes. The Company realized a $10,000 income tax benefit in the second quarter of 2010 related to the valuation allowance on the tax effect associated with current period vesting of stock compensation awards that were granted in years prior to 2009. The tax benefit of $403,000 in the second quarter of 2009 related to the pre-tax loss in that period. In the third quarter of 2009, the Company recorded a valuation allowance against the deferred tax asset. The valuation allowance reduced net income and equity by $4.3 million during the year ended December 31, 2009. The tax benefits will be recognized, and earnings and equity will be increased, as the Company generates taxable income in future periods.

Comparison of the Results of Operations for the Six Months Ended June 30, 2010 and 2009

General. Net loss totaled $5.6 million, or $1.43 per diluted common share, for the six months ended June 30, 2010, compared to a net loss of $1.0 million, or $.30 per diluted common share, for the six months ended June 30, 2009. The increase in the net loss for the six months ended June 30, 2010 was due to an increase in the provision for loan losses, which totaled $6.7 million for the six months ended June 30, 2010, compared to $1.9 million for the six months ended June 30, 2009. The increase in the provision for loan losses during the current year period was primarily a result of adverse economic conditions that continued to negatively impact our borrowers, our loan performance and our loan quality.

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Net interest income. Net interest income for the six months ended June 30, 2010 totaled $4.4 million and increased $277,000, or 6.7%, compared to the six months ended June 30, 2009. The increase in net interest income was due to a higher net interest margin for the six months ended June 30, 2010 compared to the prior year period. Net interest margin increased 27 bp to 3.31% for the six months ended June 30, 2010, compared to 3.04% for the six months ended June 30, 2009, due to a larger decline in funding costs than in asset yields. The average cost of average interest-bearing liabilities decreased 85 bp and the average yield on average interest-earning assets decreased 44 bp for the six months ended June 30, 2010, compared to the six months ended June 30, 2009. An increase in noninterest bearing deposits, which totaled $20.7 million at June 30, 2010, and increased 21.0% from $17.1 million at December 31, 2009, had a positive impact on our net interest margin, as well as the sustained low market interest rate environment which continued to have a favorable impact on our cost of funds.

Interest income. Interest income decreased $720,000, or 9.8%, to $6.7 million for the six months ended June 30, 2010, compared to $7.4 million for the six months ended June 30, 2009. The decrease in interest income was primarily due to a decrease in income on loans and securities. Interest income on loans decreased $503,000, or 7.5%, to $6.2 million for the six months ended June 30, 2010, from $6.7 million for the six months ended June 30, 2009. The decrease in interest income on loans was primarily due to a decline in the average balance of loans outstanding and, to a lesser extent, a decline in the yield on the portfolio. The average balance of loans outstanding decreased $12.9 million, or 5.4%, to $224.8 million for the six months ended June 30, 2010, compared to $237.7 million for the six months ended June 30, 2009. The average yield on loans decreased 13 bp to 5.53% in the six months ended June 30, 2010, from 5.66% in the six months ended June 30, 2009. The decline in yield was due to origination of new loans at lower market interest rates, lower reset rates on existing adjustable rate loans, and an increase in nonperforming loans. Interest income on securities decreased $217,000, or 37.1%, to $368,000 for the six months ended June 30, 2010, from $585,000 for the six months ended June 30, 2009. The decrease in income was primarily due to a decline in the average yield on the portfolio and to a lesser extent a decline in the average balance of securities. The average yield on securities decreased 194 bp to 3.37% for the six months ended June 30, 2010, from 5.31% for the six months ended June 30, 2009. The decrease in the average yield on securities was due to securities purchases at lower market interest rates in the current period. The average balance of securities decreased $269,000, or 1.2%, to $22.6 million for the six months ended June 30, 2010, from $22.8 million for the six months ended June 30, 2009. The decrease was due to current period securities maturities and repayments in excess of purchases.

Interest expense. Interest expense decreased $1.0 million, or 30.8%, to $2.2 million for the six months ended June 30, 2010, compared to $3.2 million for the six months ended June 30, 2009. The decrease resulted from reduced pricing on deposit accounts and lower borrowing costs. Interest expense on deposits decreased $772,000, or 29.9%, to $1.8 million for the six months ended June 30, 2010, from $2.6 million for the six months ended June 30, 2009. The decrease in expense on deposits was due to a decline in the average cost of deposits, partially offset by an increase in average deposit balances. The average cost of deposits decreased 86 bp to 1.71% in the six months ended June 30, 2010, from 2.57% in the six months ended June 30, 2009, due to lower market interest rates in the current year period. Average deposit balances increased $10.4 million, or 5.2%, to $211.0 million for the six months ended June 30, 2010, from $200.6 million for the six months ended June 30, 2009. The increase in average deposit balances was due to growth in money market, savings and checking account balances. Interest expense on FHLB advances and other debt, including subordinated debentures, decreased $225,000, or 34.1%, to $435,000 for the six months ended June 30, 2010, from $660,000 for the six months ended June 30, 2009. The decrease in this expense was primarily due to decline in the average balance of FHLB advances, and to a lesser extent a decrease in the average cost of borrowings. The average balance of FHLB advances decreased $8.1 million, or 24.9%, to $24.3 million for the six months ended June 30, 2010, from $32.3 million for the six months ended June 30, 2009. The decrease in the average balance was primarily due to repayment of FHLB advances with funds from the growth in deposits. The average cost of borrowings, including subordinated debentures, declined 56 bp to 2.96% in the six months ended June 30, 2010, from 3.52% in the six months ended June 30, 2009. The decrease in cost of borrowings was the result of lower market

interest rates in the current year period.

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Provision for loan losses. The provision for loan losses totaled $6.7 million for the six months ended June 30, 2010 compared to $1.9 million for the six months ended June 30, 2009. The increase in the provision for loan losses during the current year period was primarily a result of adverse economic conditions that continued to negatively impact our borrowers, our loan performance and our loan quality. See the previous section titled Financial Condition *Allowance for loan losses* for additional information.

Net charge-offs totaled $3.7 million, or 3.23% of average loans on an annualized basis, during the six months ended June 30, 2010, compared to net charge-offs of $1.0 million, or 0.86% of average loans on an annualized basis, during the six months ended June 30, 2009. Net charge-offs during the six months ended June 30, 2010 were primarily in the commercial real estate and home equity line of credit portfolios, and to a lesser extent other consumer loans. Net charge-offs during the six months ended June 30, 2009 were primarily in the commercial real estate and commercial loan portfolios and, to a lesser extent, the home equity lines of credit and single-family residential loan portfolios.

Noninterest income. Noninterest income totaled $803,000 and increased $216,000, or 36.8%, for the six months ended June 30, 2010, compared to $587,000 for the six months ended June 30, 2009. The increase was primarily due to $240,000 in gains on sales of securities during the current year period. The sales proceeds were reinvested in securities with a 0% total risk-based capital requirement. The gains on sales positively impacted CFBank s core capital ratio, and reinvestment in 0% risk-weighted assets had a positive impact on CFBank s total risk-based capital ratio. The increase in noninterest income due to gains on sales of securities was partially offset by a $17,000 decline in service charges on deposit accounts due to a decline in NSF fees and deposit account related processing fees.

The largest recurring component of noninterest income is net gain on sales of loans. Net gain on the sale of loans totaled $331,000 for both the six months ended June 30, 2010 and 2009. Despite the continued economic weakness negatively impacting the housing market during the current year period, CFBank s mortgage professionals continue to gain market share by building relationships with local realtors and individual borrowers.

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Noninterest expense. Noninterest expense totaled $4.2 million and decreased $157,000, or 3.6%, for the six months ended June 30, 2010, compared to $4.4 million for the prior year period. The decrease in noninterest expense during the six months ended June 30, 2010 was primarily due to a decrease in occupancy and equipment expenses and FDIC premiums, partially offset by an increase in professional fees, advertising and promotion and depreciation. Occupancy and equipment expense decreased $171,000, or 60.2%, and totaled $113,000 for the six months ended June 30, 2010, compared to $284,000 for the prior year period. The decrease was due to the elimination of rent expense for the Company s Fairlawn office as a result of the October 2009 acquisition of Smith Ghent LLC, which owns the Fairlawn office building. FDIC premiums decreased $86,000, or 25.6%, and totaled $250,000 for the six months ended June 30 2010, compared to $336,000 in the prior year period. The decrease was primarily related to a $128,000 special assessment to restore the reserve ratio of the Deposit Insurance Fund levied by the FDIC in the second quarter of 2009, partially offset by higher assessment rates in the current year period. Professional fees increased $36,000, or 8.1%, and totaled $478,000 for the six months ended June 30 2010, compared to $442,000 in the prior year period. The increase was primarily related to legal costs associated with nonperforming loans and, to a lesser extent, costs related to the additional independent loan and ALLL reviews, discussed previously, in the current year period. Advertising and promotion increased $41,000, and totaled $55,000 for the six months ended June 30, 2010, compared to $14,000 in the prior year period. The increase was due to costs associated with enhancement of marketing and presentation materials related to CFBank s products and services. Depreciation expense increased $28,000, or 11.9%, and totaled $264,000 for the six months ended June 30 2010, compared to $236,000 in the prior year period. The increase was due to depreciation expense for the Company s Fairlawn office as a result of the acquisition of Smith Ghent LLC, as previously discussed.

The ratio of noninterest expense to average assets improved to 2.94% for the six months ended June 30, 2010, compared to 3.02% for the six months ended June 30, 2009. The efficiency ratio improved to 84.15% for the six months ended June 30, 2010, compared to 92.42% for the six months ended June 30, 2009, primarily due to the decrease in noninterest expense and increase in net interest income in the six months ended June 30, 2010.

Income taxes. The Company realized a $30,000 income tax benefit for the six months ended June 30, 2010 related to the valuation allowance on the tax effect associated with current period vesting of stock compensation awards that were granted in years prior to 2009. The tax benefit of $541,000 for the six months ended June 30, 2009 is related to the pre-tax loss in that period. In the third quarter of 2009, the Company recorded a valuation allowance against the deferred tax asset. The valuation allowance reduced net income and equity by $4.3 million during the year ended December 31, 2009. The tax benefits will be recognized, and earnings and equity will be increased, as the Company generates taxable income in future periods.

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Average Balances, Interest Rates and Yields. The following table presents, for the periods indicated, the total dollar amount of fully taxable equivalent interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in both dollars and rates. Average balances are computed using month-end balances.

	For the Three Months Ended June 30,					
	2010			2009		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Securities [1] [2]	$ 23,227	$ 172	3.05%	$ 22,693	$ 288	5.27%
Loans and loans held for sale [3]	221,839	3,074	5.54%	238,617	3,326	5.58%
Other earning assets	24,046	15	0.25%	11,007	7	0.25%
FHLB stock	1,942	21	4.33%	2,108	23	4.36%
Total interest-earning assets	271,054	3,282	4.86%	274,425	3,644	5.33%
Noninterest-earning assets	16,098			15,672		
Total assets	$ 287,152			$ 290,097		
Interest-bearing liabilities:						
Deposits	$ 213,070	890	1.67%	$ 198,360	1,222	2.46%
FHLB advances and other borrowings	29,097	211	2.90%	41,100	349	3.35%
Total interest-bearing liabilities	242,167	1,101	1.82%	239,460	1,571	2.62%
Noninterest-bearing liabilities	24,196			18,287		
Total liabilities	266,363			257,747		
Equity	20,789			32,350		
Total liabilities and equity	$ 287,152			$ 290,097		
Net interest-earning assets	$ 28,887			$ 34,965		
Net interest income/interest rate spread		$ 2,181	3.04%		$ 2,073	2.71%
Net interest margin			3.23%			3.03%
	111.93%			114.60%		

Average interest-earning assets to average interest-bearing liabilities

(1) Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields and interest earned are stated on a fully taxable equivalent basis.

(3) Balance is net of the ALLL, deferred loan origination fees, undisbursed proceeds of construction loans and includes nonperforming loans.

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Average Balances, Interest Rates and Yields Continued

	For the Six Months Ended June 30,					
	2010			2009		
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Securities [1] [2]	$ 22,552	$ 368	3.37%	$ 22,821	$ 585	5.31%
Loans and loans held for sale [3]	224,833	6,220	5.53%	237,744	6,723	5.66%
Other earning assets	18,186	23	0.25%	9,840	19	0.39%
FHLB stock	1,942	43	4.43%	2,109	47	4.46%
Total interest-earning assets	267,513	6,654	4.99%	272,514	7,374	5.43%
Noninterest-earning assets	18,065			16,143		
Total assets	$ 285,578			$ 288,657		
Interest-bearing liabilities:						
Deposits	$ 211,033	1,809	1.71%	$ 200,587	2,581	2.57%
FHLB advances and other borrowings	29,431	435	2.96%	37,487	660	3.52%
Total interest-bearing liabilities	240,464	2,244	1.87%	238,074	3,241	2.72%
Noninterest-bearing liabilities	22,984			17,873		
Total liabilities	263,448			255,947		
Equity	22,130			32,710		
Total liabilities and equity	$ 285,578			$ 288,657		
Net interest-earning assets	$ 27,049			$ 34,440		
Net interest income/interest rate spread		$ 4,410	3.12%		$ 4,133	2.71%
Net interest margin			3.31%			3.04%
Average interest-earning assets to average interest-bearing liabilities	111.25%			114.47%		

(1)

Average balance is computed using the carrying value of securities. Average yield is computed using the historical amortized cost average balance for available for sale securities.

(2) Average yields and interest earned are stated on a fully taxable equivalent basis.

(3) Balance is net of the ALLL, deferred loan origination fees, undisbursed proceeds of construction loans and includes nonperforming loans.

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Rate/Volume Analysis of Net Interest Income. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase and decrease related to changes in balances and/or changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by the prior rate) and (ii) changes in rate (i.e., changes in rate multiplied by prior volume). For purposes of this table, changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009 Increase (decrease) due to			Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009 Increase (decrease) due to		
	Rate	Volume	Net	Rate	Volume	Net
	(Dollars in thousands)					
Interest-earning assets:						
Securities [1]	$ (163)	$ 47	$ (116)	$ (210)	$ (7)	$ (217)
Loans and loans held for sale	(19)	(233)	(252)	(144)	(359)	(503)
Other earning assets	(2)	10	8	(17)	21	4
FHLB stock		(2)	(2)		(4)	(4)
Total interest-earning assets	(184)	(178)	(362)	(371)	(349)	(720)
Interest-bearing liabilities:						
Deposits	(859)	527	(332)	(1,133)	361	(772)
FHLB advances and other borrowings	(43)	(95)	(138)	(96)	(129)	(225)
Total interest-bearing liabilities	(902)	432	(470)	(1,229)	232	(997)
Net change in net interest income	$ 718	$ (610)	$ 108	$ 858	$ (581)	$ 277

[1] Securities amounts are presented on a fully taxable equivalent basis.

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Critical Accounting Policies

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies are presented in Note 1 to our audited consolidated financial statements in our 2009 Annual Report to Stockholders incorporated by reference into our 2009 Annual Report on Form 10-K. Some of these accounting policies are considered to be critical accounting policies, which are those policies that are both most important to the portrayal of the Company s financial condition and results of operation, and require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by management could result in material changes in our financial position or results of operations. These policies, current assumptions and estimates utilized, and the related disclosure of this process, are determined by management and routinely reviewed with the Audit Committee of the Board of Directors. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements were appropriate given the factual circumstances at the time.

We have identified accounting policies that are critical accounting policies, and an understanding of these policies is necessary to understand our financial statements. The following discussion details the critical accounting policies and the nature of the estimates made by management.

Determination of the allowance for loan losses. The ALLL represents management s estimate of probable incurred credit losses in the loan portfolio at each balance sheet date. The allowance consists of general and specific components. The general component covers loans not classified as impaired and is based on historical loss experience, adjusted for current factors. Current factors considered include, but are not limited to, management s oversight of the portfolio, including lending policies and procedures; nature, level and trend of the portfolio, including performing loans, trends in past due and nonperforming loans, loan concentrations, loan terms and other characteristics; current economic conditions and outlook; collateral values; and other items. The specific component of the ALLL relates to loans that are individually classified as impaired. Nonperforming loans exceeding policy thresholds are regularly reviewed to identify impairment. A loan is impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts contractually due. Determining whether a loan is impaired and whether there is an impairment loss requires judgment and estimates, and the eventual outcomes may differ from estimates made by management. The determination of whether a loan is impaired includes review of historical data, judgments regarding the ability of the borrower to meet the terms of the loan, an evaluation of the collateral securing the loan and estimation of its value, net of selling expenses, if applicable, various collection strategies, and other factors relevant to the loan or loans. Impairment is measured based on the fair value of collateral, less costs to sell, if the loan is collateral dependent, or alternatively, the present value of expected future cash flows discounted at the loan s effective rate, if the loan is not collateral dependent. When the selected measure is less than the recorded investment in the loan, an impairment loss is recorded. As a result, determining the appropriate level for the ALLL involves not only evaluating the current financial situation of individual borrowers or groups of borrowers, but also current predictions about future events that could change before an actual loss is determined. Based on the variables involved and the fact that management must make judgments about outcomes that are inherently uncertain, the determination of the ALLL is considered to be a critical accounting policy. Additional information regarding this policy is included in the previous section titled "Financial Condition *Allowance for loan losses* and in Notes 1, 3 and 4 to our consolidated financial statements in our 2009 Annual Report to Stockholders incorporated by reference into our 2009 Annual Report on Form 10-K.

Valuation of the deferred tax asset. Another critical accounting policy relates to valuation of the deferred tax asset, which includes the benefit of loss carryforwards which expire in varying amounts in future periods. At year-end 2009, the Company had net operating loss carryforwards of approximately $7.7 million which expire at various dates from 2024 to 2029. Realization is dependent on generating sufficient future taxable income prior to expiration of the loss

carryforwards. The Company s net loss in 2009 reduced management s near term estimate of future taxable income, and reduced the amount of the net deferred tax asset considered realizable. A $4.3 million valuation allowance was recorded in 2009, reducing the amount of the net deferred tax asset to zero. Additional information regarding this policy is included in the previous section captioned Comparison of the Results of Operations for the Three Months Ended June 30, 2010 and 2009 *Income taxes* and Comparison of the Results of Operations for the Six Months Ended June 30, 2010 and 2009 *Income taxes* and is included in Notes 1 and 12 to our consolidated financial statements in our 2009 Annual Report to Stockholders incorporated by reference into our 2009 Annual Report on Form 10-K.

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Fair value of financial instruments. Another critical accounting policy relates to fair value of financial instruments, which are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Additional information is included in Notes 1 and 4 to our consolidated financial statements in our 2009 Annual Report to Stockholders incorporated by reference into our 2009 Annual Report on Form 10-K.

Liquidity and Capital Resources

In general terms, liquidity is a measurement of an enterprise s ability to meet cash needs. The primary objective in liquidity management is to maintain the ability to meet loan commitments and to repay deposits and other liabilities in accordance with their terms without an adverse impact on current or future earnings. Principal sources of funds are deposits; amortization and prepayments of loans; maturities, sales and principal receipts of securities available for sale; borrowings; and operations. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

CFBank is required by regulation to maintain sufficient liquidity to ensure its safe and sound operation. Thus, adequate liquidity may vary depending on CFBank s overall asset/liability structure, market conditions, the activities of competitors and the requirements of its own deposit and loan customers. Management believes that CFBank s liquidity is sufficient.

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on our ongoing assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities and the objective of our asset/liability management program. In addition to liquid assets, we have other sources of liquidity available including, but not limited to, access to advances from the FHLB, borrowings from the FRB, lines of credit with two commercial banks, and the ability to obtain deposits by offering above-market interest rates. Under a directive from the OTS dated April 6, 2010, CFBank cannot increase the amount of brokered deposits above $76.4 million, excluding interest credited, without the prior non-objection of the OTS. Brokered deposits totaled $65.5 million at June 30, 2010.

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MANAGEMENT S DISCUSSION AND ANALYSIS

The following table summarizes CFBank s cash available from liquid assets and borrowing capacity at June 30, 2010 and December 31, 2009.

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Cash and unpledged securities	$ 15,752	$ 5,033
Additional borrowing capacity at the FHLB	3,446	7,720
Additional borrowing capacity at the FRB	28,882	12,129
Unused commercial bank lines of credit	8,000	8,000
Total	$ 56,080	$ 32,882

Cash available from liquid assets and borrowing capacity increased to $56.1 million at June 30, 2010 from $32.9 million at December 31, 2009. Cash and unpledged securities increased $10.7 million through the six months ended June 30, 2010 due to the use of brokered deposits to increase on-balance-sheet liquidity and lock the cost of longer-term liabilities at low current market interest rates. As of June 30, 2010, CFBank, under the directive by the OTS as previously discussed, has the ability to obtain an additional $10.9 million in brokered deposits for liquidity and asset liability management purposes as needed. CFBank s additional borrowing capacity with the FHLB decreased to $3.4 million at June 30, 2010 from $7.7 million at December 31, 2009 primarily due to tightening in overall credit policies by the FHLB during six months ended June 30, 2010. CFBank s additional borrowing capacity at the FRB increased to $28.9 million at June 30, 2010 from $12.1 million at December 31, 2009 due to additional commercial real estate loans pledged as collateral with the FRB during the six months ended June 30, 2010. Further tightening in credit policies by the FHLB or FRB, deterioration in the credit performance of CFBank s loan portfolio, or a decline in the balances of pledged collateral, may reduce CFBank s borrowing capacity.

We rely primarily on a willingness to pay market-competitive interest rates to attract and retain retail deposits. Accordingly, rates offered by competing financial institutions affect our ability to attract and retain deposits. Deposits are obtained predominantly from the areas in which CFBank offices are located, and brokered deposits are accepted. We consider brokered deposits to be a useful element of a diversified funding strategy and an alternative to borrowings. Management regularly compares rates on brokered certificates of deposit with other funding sources in order to determine the best mix of funding sources, balancing the costs of funding with the mix of maturities. Although CFBank customers participate in the CDARS program, CDARS deposits are considered brokered deposits by regulation. Brokered deposits, including CDARS deposits, totaled $65.5 million at June 30, 2010 and $53.4 million at December 31, 2009. Current regulatory restrictions limit an institution s use of brokered deposits in situations where capital falls below well-capitalized levels and in certain situations where a well-capitalized institution is under a formal regulatory enforcement action. CFBank was well-capitalized and not subject to regulatory restrictions on the use of brokered deposits at June 30, 2010.

CFBank could raise additional deposits by offering above-market interest rates. Current regulatory restrictions limit an institution s ability to pay above-market interest rates in situations where capital falls below well-capitalized levels or in certain situations where a well-capitalized institution is under a formal regulatory enforcement action. CFBank was well-capitalized and not subject to regulatory restrictions on its ability to pay above-market interest rates at June 30, 2010. CFBank relies on competitive interest rates, customer service, and relationships with customers to retain deposits. To promote and stabilize liquidity in the banking and financial services sector, the FDIC, as included in the Dodd-Frank Wall Street Reform and Consumer Protection Act, as previously discussed, permanently increased deposit insurance coverage from $100,000 to $250,000 per depositor. CFBank is a participant in the FDIC s TLGP which provides unlimited deposit insurance coverage, through December 31, 2010, for noninterest-bearing transaction

accounts. Based on our historical experience with deposit retention, current retention strategies and participation in programs offering additional FDIC insurance protection, we believe that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of existing deposits will remain with CFBank.

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The Holding Company, as a savings and loan holding company, has more limited sources of liquidity than CFBank. In general, in addition to its existing liquid assets, sources of liquidity include funds raised in the securities markets through debt or equity offerings, dividends received from its subsidiaries, or the sale of assets. The Holding Company has entered into an agreement with the OTS whereby the Holding Company will not be able to incur, issue, renew, redeem, or rollover any debt, or otherwise incur any additional debt, other than liabilities that are incurred in the ordinary course of business to acquire goods and services, without the prior non-objection of the OTS. Additionally, the Holding Company is not able to declare, make, or pay any cash dividends or any other capital distributions, or purchase, repurchase, or redeem, or commit to purchase, repurchase or redeem any Holding Company equity stock without the prior non-objection of the OTS. The agreement with the OTS, however, is not expected to restrict the Holding Company s ability to raise funds in the securities markets though equity offerings.

At June 30, 2010, the Holding Company and its subsidiaries, other than CFBank, had cash of $1.3 million available to meet cash needs. Annual debt service on the subordinated debentures is currently approximately $162,000. The subordinated debentures have a variable rate of interest, reset quarterly, equal to the three-month London Interbank Offered Rate (LIBOR) plus 2.85%. The total rate in effect was 3.14% at June 30, 2010. An increase in the three-month LIBOR would increase the debt service requirement of the subordinated debentures. Annual dividends on the preferred stock are approximately $361,000 at the current 5% level, which is scheduled to increase to 9% after February 14, 2013. Annual operating expenses are approximately $425,000. The Holding Company s available cash at June 30, 2010 is sufficient to cover cash needs, at their current level, for approximately 1.4 years.

Banking regulations limit the amount of dividends that can be paid to the Holding Company by CFBank without prior approval of the OTS. Generally, financial institutions may pay dividends without prior approval as long as the dividend is not more than the total of the current calendar year-to-date earnings plus any earnings from the previous two years not already paid out in dividends, and as long as the financial institution remains well capitalized after the dividend payment. As of June 30, 2010, CFBank can pay no dividends to the Holding Company without OTS approval. Future dividend payments by CFBank to the Holding Company would be based upon future earnings or the approval of the OTS. The Holding Company is significantly dependent on dividends from CFBank to provide the liquidity necessary to meet its obligations. In view of the uncertainty surrounding CFBank s future ability to pay dividends to the Holding Company, management is exploring additional sources of funding to support its working capital needs. In the current economic environment, however, there can be no assurance that it will be able to do so or, if it can, what the cost of doing so will be.

At June 30, 2010, CFBank met the regulatory capital requirements to be considered well capitalized with a Tier 1 capital level of $18.7 million, or 6.9% of adjusted total assets, which exceeds the required level of $13.6 million, or 5.0%; Tier 1 risk-based capital level of $18.7 million, or 8.7% of risk-weighted assets, which exceeds the required level of $12.9 million, or 6.0%; and total risk-based capital of $21.5 million, or 10.0% of risk-weighted assets, which exceeds the required level of $21.4 million, or 10.0%.

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PART 1. Item 4T.

CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (Exchange Act) reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of our principal executive and financial officers, has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act.

Changes in internal control over financial reporting. We made no changes in our internal controls over financial reporting or in other factors that could significantly affect these controls in the second quarter of 2010 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. Other Information

Item 6. Exhibits.

See Exhibit Index at page 53 of this report on Form 10-Q.

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SIGNATURES

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

CENTRAL FEDERAL CORPORATION

Dated: August 16, 2010 By: /s/ Eloise L. Mackus

Eloise L. Mackus, Esq.
Interim Chief Executive Officer

Dated: August 16, 2010 By: /s/ Therese Ann Liutkus

Therese Ann Liutkus, CPA
President, Treasurer and Chief Financial Officer

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
3.1	Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the registrant s Registration Statement on Form SB-2 No. 333-64089, filed with the Commission on September 23, 1998)
3.2	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.2 to the registrant s Registration Statement on Form S-2 No. 333-129315, filed with the Commission on October 28, 2005)
3.3	Second Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.3 to the registrant s Form 10-K for the fiscal year ended December 31, 2007, filed with the Commission on March 27, 2008)
3.4	Amendment to Certificate of Incorporation of the registrant (incorporated by reference to Exhibit 3.4 to the registrant s Form 10-Q for the quarter ended June 30, 2009, filed with the Commission on August 14, 2009)
4.1	Form of Stock Certificate of Central Federal Corporation (incorporated by reference to Exhibit 4.0 to the registrant s Registration Statement on Form SB-2 No. 333-64089, filed with the Commission on September 23, 1998)
4.2	Certificate of Designations of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, of Central Federal Corporation (incorporated by reference to Exhibit 3.1 to the registrant s Current Report on Form 8-K, filed with the Commission on December 5, 2008)
4.3	Warrant, dated December 5, 2008, to purchase shares of common stock of the Registrant (incorporated by reference to Exhibit 4.1 to the registrant s Current Report on Form 8-K, filed with the Commission on December 5, 2008)
11.1	Statement Re: Computation of Per Share Earnings
22.1	Submission of Matters to a Vote of Security Holders
31.1	Rule 13a-14(a) Certifications of the Chief Executive Officer
31.2	Rule 13a-14(a) Certifications of the Chief Financial Officer
32.1	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer