

OptimumBank Holdings, Inc.  
Form 10-Q  
May 12, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

or

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

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

Commission file number 000-50755

**OPTIMUMBANK HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**Florida** **55-0865043**  
(State or other jurisdiction of **(IRS Employer**  
incorporation or organization) **Identification No.)**  
**2477 East Commercial Boulevard, Fort Lauderdale, FL 33308**

(Address of principal executive offices)

**954-776-2332**

(Registrant's telephone number, including area code)

**N/A**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No  \*The registrant has not yet been phased into the interactive data requirements.

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 819,358 shares of Common Stock, \$.01 par value, issued and outstanding as of May 10, 2011

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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

|  | March 31,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|--|----------------------------------|----------------------|
| <b>Assets</b>  |                                  |                      |
| Cash and due from banks  | \$ 433                           | \$ 1,027             |
| Interest-bearing deposits with banks   | 965                              | 186                  |
| Federal funds sold   | 9,560                            | 13,154               |
| <b>Total cash and cash equivalents</b>   | <b>10,958</b>                    | <b>14,367</b>        |
| Securities held to maturity (fair value of \$51,786 and \$48,839)                                    | 52,788                           | 51,057               |
| Loans, net of allowance for loan losses of \$3,520 and \$3,703                                       | 106,069                          | 113,542              |
| Federal Home Loan Bank stock   | 3,173                            | 3,173                |
| Premises and equipment, net  | 2,767                            | 2,796                |
| Foreclosed real estate, net  | 6,183                            | 3,215                |
| Accrued interest receivable  | 559                              | 644                  |
| Income taxes receivable  | 772                              | 772                  |
| Other assets   | 532                              | 739                  |
| <b>Total assets</b>  | <b>\$ 183,801</b>                | <b>\$ 190,305</b>    |
| <b>Liabilities and Stockholders Equity</b>   |                                  |                      |
| <b>Liabilities:</b>  |                                  |                      |
| Noninterest-bearing demand deposits  | 443                              | 309                  |
| Savings, NOW and money-market deposits   | 36,966                           | 36,654               |
| Time deposits  | 104,889                          | 111,275              |
| <b>Total deposits</b>  | <b>142,298</b>                   | <b>148,238</b>       |
| Federal Home Loan Bank advances  | 31,700                           | 31,700               |
| Junior subordinated debenture  | 5,155                            | 5,155                |
| Advanced payment by borrowers for taxes and insurance  | 891                              | 806                  |
| Official checks  | 1,192                            | 815                  |
| Other liabilities  | 887                              | 756                  |
| <b>Total liabilities</b>   | <b>182,123</b>                   | <b>187,470</b>       |
| <b>Stockholders equity:</b>  |                                  |                      |
| Preferred stock, no par value; 6,000,000 shares authorized, no shares issued or outstanding          |                                  |                      |
| Common stock, \$.01 par value; 1,500,000 shares authorized,<br>819,358 shares issued and outstanding | 8                                | 8                    |

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|  |              |              |
|--|--------------|--------------|
| Additional paid-in capital                 | 19,071       | 19,071       |
| Accumulated deficit                        | (17,401)     | (16,244)     |
| <b>Total stockholders' equity</b>          | <b>1,678</b> | <b>2,835</b> |
| Total liabilities and stockholders' equity | \$ 183,801   | \$ 190,305   |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

|   | <b>Three Months Ended<br/>March 31,</b> |              |
|---|---|--------------|
|   | <b>2011</b>                             | <b>2010</b>  |
| Interest income:                                    |   |              |
| Loans   | \$ 1,289                                | \$ 1,901     |
| Securities  | 529                                     | 930          |
| Other   | 15                                      | 14           |
| <b>Total interest income</b>                        | <b>1,833</b>                            | <b>2,845</b> |
| Interest expense:                                   |   |              |
| Deposits  | 550                                     | 758          |
| Borrowings  | 380                                     | 884          |
| <b>Total interest expense</b>                       | <b>930</b>                              | <b>1,642</b> |
| Net interest income                                 | 903                                     | 1,203        |
| Provision for loan losses                           | 34                                      | 692          |
| Net interest income after provision for loan losses | 869                                     | 511          |
| Noninterest income:                                 |   |              |
| Service charges and fees                            | 10                                      | 11           |
| Gain on sale of securities                          |   | 1,344        |
| Other   | 6                                       | 7            |
| <b>Total noninterest income</b>                     | <b>16</b>                               | <b>1,362</b> |
| Noninterest expenses:                               |   |              |
| Salaries and employee benefits                      | 476                                     | 422          |
| Occupancy and equipment                             | 133                                     | 152          |
| Data processing                                     | 52                                      | 48           |
| Professional fees                                   | 390                                     | 298          |
| Insurance   | 114                                     | 14           |
| Stationary and supplies                             | 9                                       | 11           |
| Foreclosed real estate expenses                     | 391                                     | 42           |
| Regulatory assessment                               | 221                                     | 188          |
| Loss on early extinguishment of debt                |   | 3,699        |
| Other   | 256                                     | 105          |
| <b>Total noninterest expenses</b>                   | <b>2,042</b>                            | <b>4,979</b> |

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|                            |            |            |
|----------------------------|------------|------------|
| Net loss                   | \$ (1,157) | \$ (3,106) |
| <b>Net loss per share:</b> |            |            |
| Basic                      | \$ (1.41)  | \$ (3.79)  |
| Diluted                    | \$ (1.41)  | \$ (3.79)  |
| Dividends per share        | \$         | \$         |

See Accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Condensed Consolidated Statements of Stockholders Equity****Three Months Ended March 31, 2011 and 2010****(Dollars in thousands)**

|  | Common Stock |        | Additional | Accumulated | Total        |
|--|--------------|--------|------------|-------------|--------------|
|  | Shares       | Amount | Paid-In    | Deficit     | Stockholders |
|  |              |        | Capital    |             | Equity       |
| Balance at December 31, 2009                                   | 3,276,842    | \$ 33  | \$ 19,046  | \$ (7,791)  | \$ 11,288    |
| Net loss for the three months ended March 31, 2010 (unaudited) |              |        |            | (3,106)     | (3,106)      |
| Balance at March 31, 2010 (unaudited)                          | 3,276,842    | \$ 33  | \$ 19,046  | \$ (10,897) | \$ 8,182     |
| Balance at December 31, 2010                                   | 819,358      | \$ 8   | \$ 19,071  | \$ (16,244) | \$ 2,835     |
| Net loss for the three months ended March 31, 2011 (unaudited) |              |        |            | (1,157)     | (1,157)      |
| Balance at March 31, 2011 (unaudited)                          | 819,358      | \$ 8   | \$ 19,071  | \$ (17,401) | \$ 1,678     |

See Accompanying Notes to Condensed Consolidated Financial Statements.



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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>Cash flows from operating activities:</b>                                       |   |             |
| Net loss   | \$ (1,157)                              | \$ (3,106)  |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b> |   |             |
| Depreciation and amortization  | 33                                      | 44          |
| Provision for loan losses  | 34                                      | 692         |
| Gain on sale of securities   |   | (1,344)     |
| Loss on early extinguishment of debt   |   | 3,699       |
| Net amortization of fees, premiums and discounts                                   | (69)                                    | (2)         |
| Decrease in accrued interest receivable  | 85                                      | 177         |
| Decrease (increase) in other assets  | 207                                     | (69)        |
| Loss on sale of foreclosed real estate   | 166                                     |             |
| Write-down of foreclosed real estate   | 180                                     |             |
| Increase (decrease) in official checks and other liabilities                       | 508                                     | (192)       |
| <br>   |   |             |
| Net cash used in operating activities  | (13)                                    | (101)       |
| <br>   |   |             |
| <b>Cash flows from investing activities:</b>                                       |   |             |
| Purchases of securities held to maturity   | (5,048)                                 |             |
| Principal repayments of securities held to maturity                                | 3,405                                   | 2,585       |
| Proceeds from sale of securities   |   | 45,428      |
| Net decrease in loans  | 2,463                                   | 1,710       |
| Purchases of premises and equipment  | (4)                                     | (7)         |
| Proceeds from sale of foreclosed real estate, net                                  | 1,643                                   |             |
| <br>   |   |             |
| Net cash provided by investing activities  | 2,459                                   | 49,716      |
| <br>   |   |             |
| <b>Cash flows from financing activities:</b>                                       |   |             |
| Net (decrease) increase in deposits  | (5,940)                                 | 8,590       |
| Net decrease in other borrowings   |   | (44,764)    |
| Repayment of Federal Home Loan Bank advances                                       |   | (16,735)    |
| Net increase in advanced payments by borrowers for taxes and insurance             | 85                                      | 207         |
| <br>   |   |             |
| Net cash used in financing activities  | (5,855)                                 | (52,702)    |
| <br>   |   |             |
| Net decrease in cash and cash equivalents  | (3,409)                                 | (3,087)     |
| Cash and cash equivalents at beginning of the period                               | 14,367                                  | 36,784      |
| <br>   |   |             |
| Cash and cash equivalents at end of the period                                     | \$ 10,958                               | \$ 33,697   |

(continued)



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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Condensed Consolidated Statements of Cash Flows (Unaudited), Continued**

(In thousands)

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| <b>Supplemental disclosure of cash flow information:</b> |   |             |
| Cash paid during the period for:                         |   |             |
| Interest   | \$ 902                                  | \$ 1,794    |
| Income taxes   | \$                                      | \$          |
| <b>Noncash transaction-</b>                              |   |             |
| Loans transferred to foreclosed real estate              | \$ 4,957                                | \$ 536      |

See Accompanying Notes to Condensed Consolidated Financial Statements.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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

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

In the opinion of the management, the accompanying condensed consolidated financial statements of the Company contain all adjustments (consisting principally of normal recurring accruals) necessary to present fairly the financial position at March 31, 2011, and the results of operations and cash flows for the three-month periods ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year.

**Going Concern.** The Company's recent and continuing increases in nonperforming assets, declining net interest margin, continuing high levels of noninterest expenses related to the credit problems, and eroding regulatory capital raise substantial doubt about the Company's ability to continue as a going concern.

The Bank has not complied with its regulatory capital requirements set forth in the Consent Order issued by the FDIC and the Florida Office of Financial Regulation (OFR) discussed in Note 9, as well as the FDIC regulatory framework for prompt corrective action. The Company needs to raise substantial additional capital for it return to profitability and continue operations. Since January 2011, the Company has conducted a private placement offering of its common stock to increase regulatory capital. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering, to meet the Bank's capital requirements. Further, there can be no assurance that other financing alternatives or recapitalization plans will be available, forthcoming or successfully implemented, or receive regulatory approval. If the Company is unable to raise capital and the Bank's regulatory capital levels continue to decline, the regulators may take additional enforcement action against the Bank, including placing the Bank into conservatorship or receivership, to protect the interests of depositors insured by the FDIC.

(continued)

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

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

|                                     | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|-------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| <b>Securities Held to Maturity:</b> |                   |                              |                               |               |
| <i>At March 31, 2011:</i>           |                   |                              |                               |               |
| Mortgage-backed securities          | \$ 52,688         | \$ 142                       | \$ (1,144)                    | \$ 51,686     |
| State of Israel bond                | 100               |                              |                               | 100           |
|                                     | \$ 52,788         | \$ 142                       | \$ (1,144)                    | \$ 51,786     |
| <i>At December 31, 2010:</i>        |                   |                              |                               |               |
| Mortgage-backed securities          | \$ 50,957         | \$ 130                       | \$ (2,348)                    | \$ 48,739     |
| State of Israel bond                | 100               |                              |                               | 100           |
|                                     | \$ 51,057         | \$ 130                       | \$ (2,348)                    | \$ 48,839     |

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

Securities with gross unrealized losses at March 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

|                                     | Less Than Twelve Months       |               | Over Twelve Months            |               |
|-------------------------------------|-------------------------------|---------------|-------------------------------|---------------|
|                                     | Gross<br>Unrealized<br>Losses | Fair<br>Value | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>Securities Held to Maturity-</b> |                               |               |                               |               |
| Mortgage-backed securities          | \$ 221                        | \$ 18,050     | \$ 923                        | \$ 17,853     |

(continued)

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

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

In evaluating mortgage-backed securities with unrealized losses greater than twelve months, management utilizes various resources, including input from independent third party firms to perform an analysis of expected future cash flows. The process begins with an assessment of the underlying collateral backing the mortgage pools. Management develops specific assumptions using as much market data as possible and includes internal estimates as well as estimates published by rating agencies and other third-party sources. The data for the individual borrowers in the underlying mortgage pools are generally segregated by state, FICO score at issue, loan to value at issue and income documentation criteria. Mortgage pools are evaluated for current and expected levels of delinquencies and foreclosures, based on where they fall in the proscribed data set of FICO score, geographics, LTV and documentation type and a level of loss severity is assigned to each security based on its experience. The above-described historical data is used to develop current and expected measures of cumulative default rates as well as ultimate loss frequency and severity within the underlying mortgages. This reveals the expected future cash flows within the mortgage pool. The data described above is then input to an industry recognized model to assess the behavior of the particular security tranche owned by the Company. Significant inputs in this process include the structure of any subordination structures, if applicable, and are dictated by the structure of each particular security as laid out in the offering documents. The forecasted cash flows from the mortgage pools are input through the security structuring model to derive expected cash flows for the specific security owned by the Company to determine if the future cash flows are expected to exceed the book value of the security. The values for the significant inputs are updated on a regular basis. Based on management's analysis, there was no OTTI charge during 2010 or 2011. In 2009, an OTTI charge of \$179,000 was recorded on five securities with a carrying value of \$8,120,000 at March 31, 2011. There have been no subsequent OTTI charges related to these securities since 2009.

(continued)

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

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

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

|  | At March 31,<br>2011 | At December 31,<br>2010 |
|--|----------------------|-------------------------|
| Residential real estate                    | \$ 37,697            | \$ 40,130               |
| Multi-family real estate                   | 4,186                | 4,213                   |
| Commercial real estate                     | 53,166               | 55,119                  |
| Land and construction                      | 14,058               | 17,292                  |
| Consumer                                   | 337                  | 358                     |
| <br>Total loans                            | <br>109,444          | <br>117,112             |
| Add (deduct):                              |                      |                         |
| Net deferred loan fees, costs and premiums | 146                  | 134                     |
| Loan discounts                             | (1)                  | (1)                     |
| Allowance for loan losses                  | (3,520)              | (3,703)                 |
| <br>Loans, net                             | <br>\$ 106,069       | <br>\$ 113,542          |

An analysis of the change in the allowance for loan losses for the periods ended March 31, 2011 and 2010 follows (in thousands):

|  | Residential<br>Real<br>Estate | Multi-Family<br>Real<br>Estate | Commercial<br>Real<br>Estate | Land<br>And<br>Construction | Consumer  | Total        | At March 31,<br>2010 |
|--|-------------------------------|--------------------------------|------------------------------|-----------------------------|-----------|--------------|----------------------|
| Beginning balance                          | \$ 1,285                      | \$ 282                         | \$ 1,542                     | \$ 514                      | \$ 80     | \$ 3,703     | \$ 9,363             |
| Provision (credit) for loan losses         | 27                            | 23                             | (97)                         | 90                          | (9)       | 34           | 692                  |
| Charge-offs                                |                               |                                |                              | (245)                       |           | (245)        | (3,212)              |
| Recoveries                                 | 2                             |                                |                              | 23                          | 3         | 28           |                      |
| <br>Ending balance                         | <br>\$ 1,314                  | <br>\$ 305                     | <br>\$ 1,445                 | <br>\$ 382                  | <br>\$ 74 | <br>\$ 3,520 | <br>\$ 6,843         |
| <br>Individually evaluated for impairment: |                               |                                |                              |                             |           |              |                      |
| Recorded investment                        | \$ 12,047                     | \$                             | \$ 19,488                    | \$ 9,052                    | \$ 229    | \$ 40,816    | \$ 37,857            |
| <br>Balance in allowance for loan losses   | <br>\$                        | <br>\$                         | <br>\$ 11                    | <br>\$ 199                  | <br>\$    | <br>\$ 210   | <br>\$ 3,085         |

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|  |           |          |           |          |        |           |           |  |
|--|-----------|----------|-----------|----------|--------|-----------|-----------|--|
| Collectively evaluated for impairment: |           |          |           |          |        |           |           |  |
| Recorded investment                    | \$ 25,650 | \$ 4,186 | \$ 33,678 | \$ 5,006 | \$ 108 | \$ 68,628 | \$ 99,874 |  |
| Balance in allowance for loan losses   | \$ 1,314  | \$ 305   | \$ 1,434  | \$ 183   | \$ 74  | \$ 3,310  | \$ 3,758  |  |

(continued)



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

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

|                                      | Pass             | OLEM<br>(Other<br>Loans<br>Especially<br>Mentioned) | Substandard      | Doubtful  | Loss      | Total             |
|--------------------------------------|------------------|---|------------------|-----------|-----------|-------------------|
| <b>At March 31, 2011:</b>            |                  |   |                  |           |           |                   |
| Residential real estate:             |                  |   |                  |           |           |                   |
| Closed-end mortgages first mortgages | \$ 21,682        | \$ 4,975  | \$ 7,847         | \$        | \$        | \$ 34,504         |
| Closed-end second mortgages          | 3,193            |   |                  |           |           | 3,193             |
| <b>Total residential real estate</b> | <b>24,875</b>    | <b>4,975</b>  | <b>7,847</b>     |           |           | <b>37,697</b>     |
| Multi-family real estate             | 4,186            |   |                  |           |           | 4,186             |
| Commercial real estate:              |                  |   |                  |           |           |                   |
| Owner-occupied                       | 12,892           | 1,232   | 373              |           |           | 14,497            |
| Non-owner-occupied                   | 17,898           | 3,629   | 17,142           |           |           | 38,669            |
| <b>Total commercial real estate</b>  | <b>30,790</b>    | <b>4,861</b>  | <b>17,515</b>    |           |           | <b>53,166</b>     |
| Land and construction                | 4,956            | 1,667   | 7,435            |           |           | 14,058            |
| Consumer:                            |                  |   |                  |           |           |                   |
| Non-real estate secured              | 79               |   | 150              |           |           | 229               |
| Real estate secured                  | 108              |   |                  |           |           | 108               |
| <b>Total consumer</b>                | <b>187</b>       |   | <b>150</b>       |           |           | <b>337</b>        |
| <b>Total</b>                         | <b>\$ 64,994</b> | <b>\$ 11,503</b>                                    | <b>\$ 32,947</b> | <b>\$</b> | <b>\$</b> | <b>\$ 109,444</b> |
| <b>At December 31, 2010:</b>         |                  |   |                  |           |           |                   |
| Residential real estate:             |                  |   |                  |           |           |                   |
| Closed-end mortgages first mortgages | \$ 23,542        | \$ 3,697  | \$ 9,691         | \$        | \$        | \$ 36,930         |
| Closed-end second mortgages          | 3,200            |   |                  |           |           | 3,200             |
| <b>Total residential real estate</b> | <b>26,742</b>    | <b>3,697</b>  | <b>9,691</b>     |           |           | <b>40,130</b>     |
| Multi-family real estate             | 4,213            |   |                  |           |           | 4,213             |

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

(continued)

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

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

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

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

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

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

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

(continued)

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

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

|                              | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Accruing Loans<br>Greater<br>Than 90<br>Days<br>Past Due | Total<br>Past<br>Due | Current   | Nonaccrual<br>Loans | Total<br>Loans |
|------------------------------|---------------------------|---------------------------|--|----------------------|-----------|---------------------|----------------|
| <b>At March 31, 2011:</b>    |                           |                           |  |                      |           |                     |                |
| Residential real estate:     |                           |                           |  |                      |           |                     |                |
| Closed-end first mortgages   | \$                        | \$                        | \$   | \$                   | \$ 25,375 | \$ 9,129            | \$ 34,504      |
| Closed-end second mortgages  |                           |                           |  |                      | 3,193     |                     | 3,193          |
| Subtotal                     |                           |                           |  |                      | 28,568    | 9,129               | 37,697         |
| Multi-family real estate     |                           |                           |  |                      | 4,186     |                     | 4,186          |
| Commercial real estate:      |                           |                           |  |                      |           |                     |                |
| Owner-occupied               |                           |                           |  |                      | 14,125    | 372                 | 14,497         |
| Non-owner-occupied           |                           |                           |  |                      | 23,122    | 15,547              | 38,669         |
| Subtotal                     |                           |                           |  |                      | 37,247    | 15,919              | 53,166         |
| Land and construction        |                           |                           |  |                      | 5,006     | 9,052               | 14,058         |
| Consumer:                    |                           |                           |  |                      |           |                     |                |
| Non-real estate secured      |                           |                           |  |                      | 79        | 150                 | 229            |
| Real estate secured          |                           |                           |  |                      | 108       |                     | 108            |
| Subtotal                     |                           |                           |  |                      | 187       | 150                 | 337            |
| Total                        | \$                        | \$                        | \$   | \$                   | \$ 75,194 | \$ 34,250           | \$ 109,444     |
| <b>At December 31, 2010:</b> |                           |                           |  |                      |           |                     |                |
| Residential real estate:     |                           |                           |  |                      |           |                     |                |
| Closed-end first mortgages   | \$                        | \$                        | \$   | \$                   | \$ 27,239 | \$ 9,691            | \$ 36,930      |
| Closed-end second mortgages  |                           |                           |  |                      | 3,200     |                     | 3,200          |
| Subtotal                     |                           |                           |  |                      | 30,439    | 9,691               | 40,130         |
| Multi-family real estate     |                           |                           |  |                      | 4,213     |                     | 4,213          |
| Commercial real estate:      |                           |                           |  |                      |           |                     |                |

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

(continued)

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

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

|                                     | At March 31, 2011   |                          |                   | At December 31, 2010 |                          |                   |
|-------------------------------------|---------------------|--------------------------|-------------------|----------------------|--------------------------|-------------------|
|                                     | Recorded Investment | Unpaid Principal Balance | Related Allowance | Recorded Investment  | Unpaid Principal Balance | Related Allowance |
| With no related allowance recorded: |                     |                          |                   |                      |                          |                   |
| Residential real estate-            |                     |                          |                   |                      |                          |                   |
| Closed-end first mortgages          | \$ 12,047           | \$ 13,435                | \$                | \$ 12,608            | \$ 14,272                | \$                |
| Commercial real estate:             |                     |                          |                   |                      |                          |                   |
| Owner-occupied                      | 372                 | 392                      |                   | 1,837                | 1,857                    |                   |
| Non-owner-occupied                  | 17,942              | 20,168                   |                   | 18,204               | 20,466                   |                   |
| Land and construction               | 7,435               | 10,494                   |                   | 9,980                | 15,018                   |                   |
| Consumer-                           |                     |                          |                   |                      |                          |                   |
| Non-real estate secured             | 229                 | 229                      |                   | 249                  | 249                      |                   |
| With an allowance recorded:         |                     |                          |                   |                      |                          |                   |
| Commercial real estate-             |                     |                          |                   |                      |                          |                   |
| Non-owner-occupied                  | 1,174               | 1,174                    | 11                | 1,174                | 1,174                    | 11                |
| Land and construction               | 1,617               | 1,617                    | 199               | 669                  | 669                      | 75                |
| Total:                              |                     |                          |                   |                      |                          |                   |
| Residential real estate-            |                     |                          |                   |                      |                          |                   |
| Closed-end first mortgages          | \$ 12,047           | \$ 13,435                | \$                | \$ 12,608            | \$ 14,272                | \$                |
| Commercial real estate:             |                     |                          |                   |                      |                          |                   |
| Owner-occupied                      | \$ 372              | \$ 392                   | \$                | \$ 1,837             | \$ 1,857                 | \$                |
| Non-owner-occupied                  | \$ 19,116           | \$ 21,342                | \$ 11             | \$ 19,378            | \$ 21,640                | \$ 11             |
| Land and construction               | \$ 9,052            | \$ 12,111                | \$ 199            | \$ 10,649            | \$ 15,687                | \$ 75             |
| Consumer-                           |                     |                          |                   |                      |                          |                   |
| Non-real estate secured             | \$ 229              | \$ 229                   | \$                | \$ 249               | \$ 249                   | \$                |
| Total                               | \$ 40,816           | \$ 47,509                | \$ 210            | \$ 44,721            | \$ 53,705                | \$ 86             |

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

|                            | For the Period Ending March 31, 2011 |                            |                          | For the Year Ended December 31, 2010 |                            |                          |
|----------------------------|--------------------------------------|----------------------------|--------------------------|--------------------------------------|----------------------------|--------------------------|
|                            | Average Recorded Investment          | Interest Income Recognized | Interest Income Received | Average Recorded Investment          | Interest Income Recognized | Interest Income Received |
| Residential real estate-   |                                      |                            |                          |                                      |                            |                          |
| Closed-end first mortgages | \$ 11,752                            | \$ 52                      | \$ 78                    | \$ 7,081                             | \$ 20                      | \$ 35                    |

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|                          |           |        |        |           |        |        |
|--------------------------|-----------|--------|--------|-----------|--------|--------|
| Multi-family real estate | \$        | \$     | \$     | \$ 387    | \$     | \$     |
| Commercial real estate:  |           |        |        |           |        |        |
| Owner-occupied           | \$ 751    | \$     | \$ 1   | \$ 1,266  | \$     | \$ 4   |
| Non-owner-occupied       | \$ 19,465 | \$ 53  | \$ 117 | \$ 15,279 | \$ 267 | \$ 366 |
| Land and construction    | \$ 8,080  | \$ 21  | \$ 56  | \$ 9,965  | \$ 26  | \$ 253 |
| Consumer-                |           |        |        |           |        |        |
| Non-real estate secured  | \$ 234    | \$ 2   | \$ 2   | \$ 9      | \$     | \$     |
| Total                    | \$ 40,282 | \$ 128 | \$ 254 | \$ 33,987 | \$ 313 | \$ 658 |

(continued)

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

- (4) **Regulatory Capital.** The Bank is required to maintain certain minimum regulatory capital requirements. The following is a summary at March 31, 2011 of the regulatory capital requirements and the Bank's capital on a percentage basis:

|  | <b>Bank</b> | <b>Regulatory Requirement</b> |
|--|-------------|-------------------------------|
| Tier I capital to total average assets | 3.54%       | 8.00%*                        |
| Tier I capital to risk-weighted assets | 4.97%       | 4.00%                         |
| Total capital to risk-weighted assets  | 6.23%       | 12.00%*                       |

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

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2011</b>               | <b>2010</b> |
| Weighted-average number of common shares outstanding used to calculate basic and diluted loss per common share | 819,358                   | 819,358     |

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

(continued)



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

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

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

|   | Number of<br>Options | Weighted-<br>Average<br>Exercise<br>Price | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|---|----------------------|---|--|---------------------------------|
| Outstanding at December 31, 2010              | 69,132               | \$ 30.05                                  |  |                                 |
| Options expired                               | (10,635)             | 18.16                                     |  |                                 |
| Outstanding and exercisable at March 31, 2011 | 58,497               | \$ 32.21                                  | 3.3 years  | \$                              |

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

|                            | At March 31, 2011 |         |         |           |                 | Losses<br>Recorded<br>in<br>Operations<br>For the<br>Period Ended<br>March 31,<br>2011 |
|----------------------------|-------------------|---------|---------|-----------|-----------------|--|
|                            | Fair<br>Value     | Level 1 | Level 2 | Level 3   | Total<br>Losses |  |
| Residential real estate -  |                   |         |         |           |                 |  |
| Closed-end first mortgages | \$ 2,295          | \$      | \$      | \$ 2,295  | \$ 561          | \$   |
| Commercial real estate:    |                   |         |         |           |                 |  |
| Owner-occupied             | 69                |         |         | 69        | 20              |  |
| Non-owner-occupied         | 8,632             |         |         | 8,632     | 2,546           |  |
| Land and construction      | 5,509             |         |         | 5,509     | 1,706           | 245  |
|                            | \$ 16,505         | \$      | \$      | \$ 16,505 | \$ 4,833        | \$ 245   |

(continued)



**Table of Contents****OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements (unaudited), Continued****(7) Fair Value Measurements, Continued.**

|                            | At December 31, 2010 |         |         |           |          | Total<br>Losses | Losses<br>Recorded<br>in<br>Operations<br>For the<br>Year Ended<br>December 31,<br>2010 |
|----------------------------|----------------------|---------|---------|-----------|----------|-----------------|---|
|                            | Fair<br>Value        | Level 1 | Level 2 | Level 3   |          |                 |   |
| Residential real estate -  |                      |         |         |           |          |                 |   |
| Closed-end first mortgages | \$ 4,136             | \$      | \$      | \$ 4,136  | \$ 561   | \$              | 561   |
| Commercial real estate:    |                      |         |         |           |          |                 |   |
| Owner-occupied             | 70                   |         |         | 70        | 20       |                 | 20  |
| Non-owner-occupied         | 8,893                |         |         | 8,893     | 2,583    |                 | 1,857   |
| Land and construction      | 7,231                |         |         | 7,231     | 1,815    |                 | 1,363   |
|                            | \$ 20,330            | \$      | \$      | \$ 20,330 | \$ 4,979 | \$              | 3,801   |

Loans with a carrying value of \$15,612,000 and \$15,796,000 at March 31, 2011 and December 31, 2010, respectively, were measured for impairment using Level 3 inputs and had a fair value in excess of carrying value.

Foreclosed real estate is recorded at fair value less estimated costs to sell. Foreclosed real estate which is measured at fair value on a nonrecurring basis is as follows (in thousands):

|                      | Fair<br>Value | Level 1 | Level 2 | Level 3  | Total<br>Losses | Losses<br>Recorded<br>During the<br>Period |
|----------------------|---------------|---------|---------|----------|-----------------|--|
|                      |               |         |         |          |                 |  |
| At December 31, 2010 | \$ 3,215      | \$      | \$      | \$ 3,215 | \$              | \$   |

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

|                             | At March 31, 2011  |               | At December 31, 2010 |               |
|-----------------------------|--------------------|---------------|----------------------|---------------|
|                             | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount   | Fair<br>Value |
| Financial assets:           |                    |               |                      |               |
| Cash and cash equivalents   | \$ 10,958          | \$ 10,958     | \$ 14,367            | \$ 14,367     |
| Securities held to maturity | 52,788             | 51,786        | 51,057               | 48,839        |
| Loans                       | 106,069            | 106,095       | 113,542              | 113,513       |

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|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Federal Home Loan Bank stock            | 3,173   | 3,173   | 3,173   | 3,173   |
| Accrued interest receivable             | 559     | 559     | 644     | 644     |
| <b>Financial liabilities:</b>           |         |         |         |         |
| Deposit liabilities                     | 142,298 | 143,090 | 148,238 | 148,929 |
| Federal Home Loan Bank advances         | 31,700  | 33,328  | 31,700  | 33,425  |
| Junior subordinated debenture           | 5,155   | 4,730   | 5,155   | 4,740   |
| Off-balance sheet financial instruments |         |         |         |         |

(continued)

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

- (7) ***Fair Value Measurements, Continued.*** Discussion regarding the assumptions used to compute the fair values of financial instruments can be found in Note 1 to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2010.
- (8) ***Regulatory Matters- Company.*** The Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). On June 22, 2010, the Company entered into a written agreement with the Federal Reserve Bank of Atlanta ("Reserve Bank") with respect to certain aspects of the operation and management of the Company (the "Written Agreement"). The Written Agreement contains the following principal requirements:

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

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

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

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

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

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

The Company must provide quarterly progress reports to the Reserve Bank along with parent company only financial statements.

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

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

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

The Consent Order contains the following principal requirements:

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

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

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

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

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

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

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

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

(continued)



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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements (unaudited), Continued**

**(9) *Regulatory Matters Bank, Continued.***

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

Lending and Collection Policies

Investment Policy

Liquidity, Contingency Funding and Funds Management Plan

Interest Rate Risk Management Policy

Internal Loan Review and Grading System and

Internal Control Policy.

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

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

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

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

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

The Bank has implemented comprehensive policies and plans to address all of the requirements of the Consent Order and has incorporated recommendations from the FDIC and OFR into these policies and plans. Management believes that the Bank is currently in substantial compliance with the requirements of the Consent Order except for the Bank's failure to attain the regulatory capital ratio requirements. The Company is conducting a private placement offering of its common stock intended to result in the Bank attaining such capital ratios. There can be no assurance, however, that the Company will raise sufficient capital, if any, in the private placement offering for the Bank to achieve material compliance with these ratios.





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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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

*The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto presented elsewhere in this report. For additional information, refer to the financial statements and footnotes for the year ended December 31, 2010 in the Annual Report on Form 10-K.*

**Recent Regulatory Enforcement Actions**

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

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

**Capital Levels**

The FDIC has established minimum requirements for capital adequacy for state non-member banks. As of March 31, 2011, the Bank was considered undercapitalized under these FDIC requirements. As an undercapitalized institution, the Bank is subject to restrictions on capital distributions, payment of management fees, asset growth and the acceptance, renewal or rollover of brokered and high-rate deposits. In addition, the Bank must obtain prior approval of the FDIC prior to acquiring any interest in any company or insured depository institution, establishing or acquiring any additional branch office, or engaging in any new line of business. For more information on FDIC capital requirements, see the discussion under the subheadings Capital Adequacy Requirements in the section Supervision and Regulation included in Item 1 of the Company's 2010 10-K.

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

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

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

| (Dollars in thousands)          | March 31,<br>2011 | December 31,<br>2010 | FDIC Guideline Requirements |                      |                  |
|---------------------------------|-------------------|----------------------|-----------------------------|----------------------|------------------|
|                                 |                   |                      | Adequately-<br>Capitalized  | Well-<br>Capitalized | Consent<br>Order |
| Tier I risk-based capital ratio | 4.97              | 5.43                 | 4.00                        | 6.00                 | *                |
| Total risk-based capital ratio  | 6.23              | 6.70                 | 8.00                        | 10.00                | 12.00            |
| Leverage ratio                  | 3.54              | 4.02                 | 4.00                        | 5.00                 | 8.00             |

\* No additional requirement is established by the Consent Order

The Company is taking steps to raise additional capital, including a current private placement offering of its common stock that could result in a change of control of the Company and may be highly dilutive to existing shareholders. Management is uncertain as to whether the Company will be successful in raising sufficient capital in the private placement, if any, to meet the increased capital ratios required by the Consent Order or the FDIC's guidelines for prompt corrective action. If the Company is unable to raise sufficient capital and the Bank's regulatory capital levels continue to decline, it could have a material adverse impact on the Company's business, results of operations and financial condition, and ultimately could result in the closure of the Bank and the placement of the Bank into receivership with the FDIC.

**Financial Condition at March 31, 2011 and December 31, 2010****Overview**

Our total assets declined by \$6.5 million to \$183.8 million at March 31, 2011, from \$190.3 million at December 31, 2010, due to a \$7.5 million reduction in net loans as a result of loan payoffs and the transfer of \$5 million in loans to foreclosed real estate, a \$3.4 million reduction in cash and cash equivalents, offset in part by a \$3 million increase in foreclosed real estate.

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

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

|  | <b>Three Months<br/>Ended<br/>March 31,<br/>2011</b> | <b>Year Ended<br/>December 31,<br/>2010</b> | <b>Three Months<br/>Ended<br/>March 31,<br/>2010</b> |
|--|--|---|--|
| Average equity as a percentage of average assets | 1.15%  | 3.01%                                       | 4.04%  |
| Equity to total assets at end of period          | 0.91%  | 1.49%                                       | 3.76%  |
| Return on average assets (1)                     | (2.44)%  | (3.84)%                                     | (4.89)%  |
| Return on average equity (1)                     | (212.49)%  | (127.59)%                                   | (120.96)%  |
| Noninterest expenses to average assets (1)       | 4.30%  | 4.44%                                       | 7.83%  |

(1) Annualized for the three months ended March 31, 2011 and 2010.

We continue to experience the adverse effects of a severe downturn in the real estate market in which we operate, primarily south Florida, resulting in significant levels of defaults by borrowers compared to historical periods prior to 2009, significant levels of loans previously charged-off, reduced values of the real estate serving as collateral for our loans, and decreased values of foreclosed real estate. Management, however, is committed to minimizing further losses in the loan portfolio.

**Liquidity and Sources of Funds**

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

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

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

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

In addition to obtaining funds from depositors, we may borrow funds from other financial institutions. At March 31, 2011, the Bank had outstanding borrowings of \$31.7 million, against its \$31.7 million in established borrowing capacity with the FHLB. The Bank's borrowing facility is subject to collateral and stock ownership requirements, as well as prior FHLB consent to each advance. The use of such Federal Funds line is subject to certain conditions. In 2010, the Bank obtained an available discount window credit line with the Reserve Bank, currently \$1,200,000. The Reserve Bank line is subject to collateral requirements, must be repaid within 90 days, and each advance is subject to prior Reserve Bank consent. We measure and monitor our liquidity daily and believe our liquidity sources are adequate to meet our operating needs.

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

**Off-Balance Sheet Arrangements**

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

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

The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter party. As of March 31, 2011, the Company has no commitments to extend credit.

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

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

|  | Three Months Ended March 31, |                             |                    |                   |                             |                    |
|--|------------------------------|-----------------------------|--------------------|-------------------|-----------------------------|--------------------|
|  | Average Balance              | 2011 Interest And Dividends | Average Yield/Rate | Average Balance   | 2010 Interest and Dividends | Average Yield/Rate |
| <b>Interest-earning assets:</b>                            |                              |                             |                    |                   |                             |                    |
| Loans  | \$ 111,905                   | 1,289                       | 4.61%              | \$ 142,096        | 1,901                       | 5.35%              |
| Securities   | 52,505                       | 529                         | 4.03               | 68,223            | 930                         | 5.45               |
| Other (1)  | 16,854                       | 15                          | 0.36               | 30,290            | 14                          | 0.18               |
| <b>Total interest-earning assets/interest income</b>       | <b>181,264</b>               | <b>1,833</b>                | <b>4.04</b>        | <b>240,609</b>    | <b>2,845</b>                | <b>4.73</b>        |
| <b>Cash and due from banks</b>                             |                              |                             |                    |                   |                             |                    |
|  | 581                          |                             |                    | 1,691             |                             |                    |
| <b>Premises and equipment</b>                              | <b>2,787</b>                 |                             |                    | <b>2,928</b>      |                             |                    |
| <b>Other</b>   | <b>5,347</b>                 |                             |                    | <b>9,027</b>      |                             |                    |
| <b>Total assets</b>  | <b>\$ 189,979</b>            |                             |                    | <b>\$ 254,255</b> |                             |                    |
| <b>Interest-bearing liabilities:</b>                       |                              |                             |                    |                   |                             |                    |
| Savings, NOW and money-market deposits                     | 36,166                       | 77                          | 0.85               | 45,039            | 184                         | 1.63               |
| Time deposits  | 111,576                      | 473                         | 1.70               | 105,627           | 574                         | 2.17               |
| Borrowings (2)   | 36,855                       | 380                         | 4.12               | 89,597            | 884                         | 3.95               |
| <b>Total interest-bearing liabilities/interest expense</b> | <b>184,597</b>               | <b>930</b>                  | <b>2.02</b>        | <b>240,263</b>    | <b>1,642</b>                | <b>2.73</b>        |
| <b>Noninterest-bearing demand deposits</b>                 | <b>481</b>                   |                             |                    | <b>527</b>        |                             |                    |
| <b>Other liabilities</b>                                   | <b>2,723</b>                 |                             |                    | <b>3,194</b>      |                             |                    |
| <b>Stockholders equity</b>                                 | <b>2,178</b>                 |                             |                    | <b>10,271</b>     |                             |                    |
| <b>Total liabilities and stockholders equity</b>           | <b>\$ 189,979</b>            |                             |                    | <b>\$ 254,255</b> |                             |                    |
| <b>Net interest income</b>                                 |                              | <b>\$ 903</b>               |                    |                   | <b>\$ 1,203</b>             |                    |
| <b>Interest rate spread (3)</b>                            |                              |                             | <b>2.02%</b>       |                   |                             | <b>2.00%</b>       |
| <b>Net interest margin (4)</b>                             |                              |                             | <b>1.99%</b>       |                   |                             | <b>2.00%</b>       |

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|  |      |      |
|--|------|------|
| Ratio of average interest-earning assets to average interest-bearing liabilities | 0.98 | 1.00 |
|--|------|------|

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

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Comparison of the Three-Month Periods Ended March 31, 2011 and 2010**

**General.** Net loss for the three months ended March 31, 2011, was \$1.2 million or \$(1.41) per basic and diluted share compared to a net loss of \$3.1 million or \$(3.79) per basic and diluted share for the period ended March 31, 2010. This decrease in the Company's net loss was primarily due to a decrease in the \$2.4 million net expense associated with downsizing the Company in the first quarter of 2010, a decrease in total interest expense of \$0.7 million, and a reduction in the provision for loan loss of \$0.7 million partially offset by a reduction in total interest income of \$1.0 million and a \$0.8 million increase in noninterest expenses, primarily foreclosed real estate expenses, insurance and professional fees associated with loan foreclosures, workouts, and regulatory matters.

**Interest Income.** Interest income decreased to \$1.8 million for the three months ended March 31, 2011 from \$2.8 million for the three months ended March 31, 2010. Interest income on loans decreased \$0.6 million due primarily to a decrease in the average loan portfolio balance and a decrease in the average yield earned for the three months ended March 31, 2011 compared to the same period in 2010. Interest on securities decreased by \$0.4 million to \$0.5 million due primarily to a decrease in the average balance of the securities portfolio.

**Interest Expense.** Interest expense on deposits decreased to \$0.6 million for the three months ended March 31, 2011 from \$0.8 million for the three months ended March 31, 2010. Interest expense decreased primarily because of a decrease in the average yield paid during 2011. Interest expense on borrowings decreased to \$0.4 million for the three months ended March 31, 2011 from \$0.9 million for the three months ended March 31, 2010 due primarily to a decrease in the average balance of borrowings.

**Provision for Loan Losses.** The provision for the three months ended March 31, 2011, was \$34,000 compared to \$0.7 million for the same period in 2010. The provision for loan losses is charged to operations as losses are estimated to have occurred in order to bring the total allowance for loan losses to a level deemed appropriate by management to absorb losses inherent in the portfolio at March 31, 2011. Management's periodic evaluation of the adequacy of the allowance is based upon historical experience, the volume and type of lending conducted by us, adverse situations that may affect the borrower's ability to repay, estimated value of the underlying collateral, loans identified as impaired, general economic conditions, particularly as they relate to our market areas, and other factors related to the estimated collectability of our loan portfolio. The allowance for loan losses totaled \$3.5 million or 3.2% of loans outstanding at March 31, 2011, compared to \$3.7 million, or 3.2% of loans outstanding at December 31, 2010. The decrease in the allowance was due to the use of specific reserves for charge-offs of loans deemed uncollectible. Management believes the balance in the allowance for loan losses at March 31, 2011 is adequate.

**Noninterest Income.** Total noninterest income decreased to \$16,000 for the three months ended March 31, 2011, from \$1.3 million for the three months ended March 31, 2010 primarily due to a decrease in gains recognized on the sale of securities as part of the downsizing of the Company in the first quarter of 2010.

**Noninterest Expenses.** Total noninterest expenses decreased to \$2.0 million for the three months ended March 31, 2011 compared to \$5.0 million for the three months ended March 31, 2010, primarily due to a decrease in the loss on the early extinguishment of debt associated with the Company's downsizing in 2010.



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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**Item 4T. Controls and Procedures**

- a. *Evaluation of Disclosure Controls and Procedures.* We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon management's evaluation of those controls and procedures performed within the 90 days preceding the filing of this Report, our Principal Executive and Financial Officer concluded that, as of March 31, 2011, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 was recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms.
- b. *Changes in Internal Controls.* We have made no significant changes in our internal controls over financial reporting during the quarter ended March 31, 2011, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

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

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**PART II. OTHER INFORMATION**

**SIGNATURES**

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

**OPTIMUMBANK HOLDINGS, INC.**  
(Registrant)

Date: May 12, 2011

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

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**OPTIMUMBANK HOLDINGS, INC. AND SUBSIDIARY**

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 3.1                | Articles of Incorporation (incorporated by reference from Current Report on Form 8-K filed with the Securities and Exchange Commission ( SEC ) on May 11, 2004   |
| 3.2                | Articles of Amendment to the Articles of Incorporation, effective as of January 7, 2009 (Incorporated by reference to Exhibit 3.2 to Annual Report on Form 10- K for the year ended December 31, 2008, filed with the SEC on March 31, 2009)   |
| 3.3                | Articles of Amendment to the Articles of Incorporation, effective as of November 5, 2010 (Incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K, filed with the SEC on November 5, 2010)  |
| 4.3                | Bylaws (incorporated by reference from Current Report on Form 8-K filed with the SEC on May 11, 2004   |
| 4.1                | Form of stock certificate (incorporated by reference from Quarterly Report on Form 10-QSB filed with the SEC on August 12, 2004)   |
| 10.1               | Amended and Restated Stock Option Plan (incorporated by reference from Annual Report on Form 10-KSB filed with the SEC on March 31, 2006)  |
| 10.2               | Stipulation to Entry of Consent Order and Consent Order between OptimumBank, Federal Deposit Insurance Corporation and State of Florida Office of Financial Regulation dated April 16, 2010 (incorporated by reference from current report on Form 8-K filed with the SEC on April 26, 2010) |
| 10.3               | Agreement between OptimumBank, Albert J. Finch and Richard L. Browdy dated June 14, 2002 (incorporated by reference from Registration Statement on Form 10-SB under the Exchange Act, filed with the Federal Deposit Insurance Corporation on March 28, 2003)                                |
| 10.4               | Written Agreement by and between OptimumBank Holdings, Inc. and Federal Reserve Bank of Atlanta dated June 22, 2010 (incorporated by reference from Quarterly Report on Form 10-Q filed with the SEC on November 15, 2010)   |
| 14.1               | Code of Ethics for Chief Executive Officer and Senior Financial Officers (incorporated by reference from Annual Report on Form 10-K filed with the SEC on March 31, 2010)  |
| 31.1               | Certification of Principal Executive and Principal Financial Officer required by Rule 13a-14(a)/15d-14(a) under the Exchange Act   |
| 32.1               | Certification of Principal Executive and Principal Financial Officer under §906 of the Sarbanes-Oxley Act of 2002  |