CENTRAL FEDERAL CORP
Form 10QSB
November 13, 2007

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

(Mark one)

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

For the quarterly period ended September 30, 2007

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

For the transition period from __________ to __________

Commission File Number 0-25045

CENTRAL FEDERAL CORPORATION

(Exact name of small business issuer as specified in its charter)

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

2923 Smith Road, Fairlawn, Ohio 44333
(Address of principal executive offices)
(330) 666-7979
(Issuer s telephone number)

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

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

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date.

Class:	Outstanding at October 31, 2007
Common stock, $0.01 par value	4,434,787 shares

Transitional Small Business Disclosure Format (check one) Yes o No þ

CENTRAL FEDERAL CORPORATION
FORM 10-QSB
QUARTER ENDED SEPTEMBER 30, 2007
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CENTRAL FEDERAL CORPORATION
PART I. Financial Information
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share data)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Cash and cash equivalents	$ 3,559	$ 5,403
Securities available for sale	28,927	29,326
Loans held for sale	721	2,000
Loans, net of allowance of $2,584 and $2,109	221,659	184,695
Federal Home Loan Bank stock	1,963	2,813
Loan servicing rights	172	201
Foreclosed assets, net	109	
Premises and equipment, net	5,834	4,105
Bank owned life insurance	3,742	3,646
Deferred tax asset	2,181	2,044
Accrued interest receivable and other assets	2,391	1,795
	$ 271,258	236,028
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing	$ 12,040	$ 11,114
Interest bearing	174,450	156,477
Total deposits	186,490	167,591
Federal Home Loan Bank advances	50,175	32,520
Advances by borrowers for taxes and insurance	85	137
Accrued interest payable and other liabilities	2,274	1,540
Subordinated debentures	5,155	5,155
Total liabilities	244,179	206,943
Shareholders equity		
Preferred stock, 1,000,000 shares authorized; none issued		
Common stock, $.01 par value; 6,000,000 shares authorized; 2007 - 4,628,320 shares issued, 2006 - 4,612,195 shares issued	46	46
Additional paid-in capital	27,311	27,204
Retained earnings	1,336	2,643
Accumulated other comprehensive income (loss)	(1)	(25)
Treasury stock, at cost (2007 - 193,533 shares, 2006 - 68,533 shares)	(1,613)	(783)
Total shareholders equity	27,079	29,085

	$	271,258	$	236,028

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest and dividend income				
Loans, including fees	$ 4,221	$ 3,226	$ 11,535	$ 8,394
Securities	384	386	1,160	1,231
Federal Home Loan Bank stock dividends	32	40	104	116
Federal funds sold and other	8	7	14	32
	4,645	3,659	12,813	9,773
Interest expense				
Deposits	1,923	1,425	5,310	3,609
Federal Home Loan Bank advances and other debt	633	365	1,555	850
Subordinated debentures	108	110	320	309
	2,664	1,900	7,185	4,768
Net interest income	1,981	1,759	5,628	5,005
Provision for loan losses	293	120	435	702
Net interest income after provision for loan losses	1,688	1,639	5,193	4,303
Noninterest income				
Service charges on deposit accounts	78	59	203	164
Net gains on sales of loans	35	112	207	239
Loan servicing fees, net	11		41	45
Net gains (losses) on sales of securities				(5)
Earnings on bank owned life insurance	32	32	96	95
Other	8	11	32	73
	164	214	579	611
Noninterest expense				
Salaries and employee benefits	1,617	967	3,631	2,802
Occupancy and equipment	200	123	442	352
Data processing	135	119	418	353
Franchise taxes	73	35	211	127
Professional fees	101	113	294	354
Director fees	37	34	112	115
Postage, printing and supplies	39	24	132	119

Advertising and promotion	80	18	176	67
Telephone	24	29	77	82
Loan expenses	3	16	10	77
Foreclosed assets, net	(48)		(38)	3
Depreciation	168	142	465	366
Other	159	105	346	297
	2,588	1,725	6,276	5,114
Income (loss) before income taxes	(736)	128	(504)	(200)
Income tax expense (benefit)	(253)	34	(190)	(76)
Net income (loss)	$ (483)	$ 94	$ (314)	$ (124)
Earnings (loss) per share:				
Basic	$ (0.11)	$ 0.02	$ (0.07)	$ (0.03)
Diluted	$ (0.11)	$ 0.02	$ (0.07)	$ (0.03)

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders Equity
Balance at January 1, 2007	$ 46	$ 27,204	$ 2,643	$ (25)	$ (783)	$ 29,085
Comprehensive income:						
Net income (loss)			(314)			(314)
Other comprehensive income				24		24
Total comprehensive income (loss)						(290)
Release of 13,433 stock based incentive plan shares		117				117
Tax benefits from dividends on unvested stock based incentive plan shares		3				3
Tax effect from vesting of stock based incentive plan shares		(24)				(24)
Stock option expense		11				11
Purchase 125,000 treasury shares @ $6.64 per share					(830)	(830)
Cash dividends declared ($.23 per share)			(993)			(993)
Balance at September 30, 2007	$ 46	$ 27,311	$ 1,336	$ (1)	$ (1,613)	$ 27,079

See accompanying notes to consolidated financial statements.

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CENTRAL FEDERAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Net income (loss)	$ (483)	$ 94	$ (314)	$ (124)
Change in net unrealized gain (loss) on securities available for sale	319	380	37	(170)
Less: Reclassification adjustment for gains and (losses) later recognized in net income				(5)
Net unrealized gain (loss)	319	380	37	(165)
Tax effect	(109)	(129)	(13)	56
Other comprehensive income (loss)	210	251	24	(109)
Comprehensive income (loss)	$ (273)	$ 345	$ (290)	$ (233)

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2007	2006
Cash flows from operating activities	$ 1,962	$ 602
Cash flows from investing activities		
Available-for-sale securities:		
Sales		4,395
Maturities, prepayments and calls	5,404	4,140
Purchases	(4,873)	(7,383)
Loan originations and payments, net	(32,499)	(35,041)
Loans purchased	(5,145)	(11,616)
Proceeds from redemption of FHLB stock	850	
Additions to premises and equipment	(2,241)	(1,239)
Proceeds from the sale of premises and equipment	9	39
Proceeds from the sale of foreclosed assets	231	158
Net cash from investing activities	(38,264)	(46,547)
Cash flows from financing activities		
Net change in deposits	18,865	34,954
Net change in short-term borrowings from the Federal Home Loan Bank and other debt	18,725	2,275
Proceeds from Federal Home Loan Bank advances and other debt	3,200	5,000
Repayments on Federal Home Loan Bank advances and other debt	(4,270)	(4,000)
Net change in advances by borrowers for taxes and insurance	(52)	(19)
Cash dividends paid	(1,180)	(1,020)
Proceeds from issuance of common stock in public offering		14,558
Repurchase of common stock	(830)	
Net cash from financing activities	34,458	51,748
Net change in cash and cash equivalents	(1,844)	5,803
Beginning cash and cash equivalents	5,403	2,972
Ending cash and cash equivalents	$ 3,559	$ 8,775
Supplemental cash flow information:		
Interest paid	$ 6,951	$ 4,547
Income taxes paid	15	

Supplemental noncash disclosures:		
Transfers from loans to repossessed assets	$ 277	$ 218

See accompanying notes to consolidated financial statements.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission (the SEC) and in compliance with U.S. generally accepted accounting principles. Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted.

In the opinion of the management of Central Federal Corporation (the Company), the accompanying consolidated financial statements as of September 30, 2007 and December 31, 2006 and for the three and nine months ended September 30, 2007 and 2006 include all adjustments necessary for a fair presentation of the financial condition and the results of operations for those periods. The financial performance reported for the Company for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Company s Annual Report to Shareholders and Form 10-KSB for the period ended December 31, 2006. Reference is made to the accounting policies of the Company described in Note 1 of the Notes to Consolidated Financial Statements contained in the Company s 2006 Annual Report that was filed as Exhibit 13 to the Form 10-KSB. The Company has consistently followed those policies in preparing this Form 10-QSB.

Earnings Per Share:

Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Stock based incentive plan shares are considered outstanding as they are earned over the vesting period. Diluted earnings per common share include the dilutive effect of stock based incentive plan shares and additional potential common shares issuable under stock options.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Basic				
Net income (loss)	$ (483)	$ 94	$ (314)	$ (124)
Weighted average common shares outstanding	4,417,040	4,527,194	4,483,419	4,425,953
Basic earnings (loss) per common share	$ (0.11)	$ 0.02	$ (0.07)	$ (0.03)
Diluted				
Net income (loss)	$ (483)	$ 94	$ (314)	$ (124)
Weighted average common shares outstanding for basic earnings (loss) per share	4,417,040	4,527,194	4,483,419	4,425,953
Add: Dilutive effects of assumed exercises of stock options and stock based incentive plan shares				
Average shares and dilutive potential common shares	4,417,040	4,527,194	4,483,419	4,425,953
Diluted earnings (loss) per common share	$ (0.11)	$ 0.02	$ (0.07)	$ (0.03)

The following potential average common shares were anti-dilutive and not considered in computing diluted loss per share because the Company had a loss from continuing operations, the exercise price of the options was greater than the average stock price for the periods, or the fair value of the stock based incentive plan shares at the date of grant was greater than the average stock price for the periods.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Stock options	296,289	276,605	290,447	279,116

Stock based incentive plan shares	16,377	13,501	18,901	16,878

Reclassifications:

Some items in the prior year period financial statements were reclassified to conform to the current presentation.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Standards:

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140*. This Statement clarified the treatment of derivatives that are freestanding or embedded as part of a beneficial interest in a securitized financial asset. This statement was effective on January 1, 2007 and adoption did not have a material impact on the Company s consolidated financial position or results of operations.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets.* This statement allows an entity to choose the amortization method or fair value method to account for each separately recognized servicing asset or liability. This statement was effective on January 1, 2007. The Company elected to account for all servicing assets and liabilities according to the amortization method, which did not change the prior treatment of accounting for servicing rights and therefore had no impact on the Company s consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective January 1, 2007. Details related to the adoption of FIN 48 and the impact on the Company s consolidated financial position and results of operations are more fully discussed in the Note 5 Income Taxes.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue was effective on January 1, 2007 and adoption had no impact on the Company s consolidated financial position or results of operations.

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It is effective for fiscal years beginning after November 15, 2007 and will apply to the Company effective January 1, 2008. The Company did not elect early adoption as of January 1, 2007. Management does not expect the adoption of this statement will have a material impact on its consolidated financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilites, including an amendment of FASB Statement No. 115* (SFAS 159). This statement allows entities the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities. Subsequent changes in fair value of the financial assets and liabilities would be recognized in earnings when they occur. This pronouncement also establishes certain additional disclosure requirements. It is effective at the beginning of the first fiscal year beginning after November 15, 2007 and will apply to the Company effective January 1, 2008. The Company did not elect early adoption as of January 1, 2007. At the present time, management does not expect the adoption of this statement will have a material impact on the Company s consolidated financial position or results of operations.

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

NOTE 2 LOANS

Loans at period-end were as follows:

	September 30, 2007	December 31, 2006
Commercial	$ 31,381	$ 31,913
Real estate:		
Single-family residential	30,704	30,209
Multi-family residential	42,807	47,247
Commercial	90,860	47,474
Consumer	28,885	30,246
Subtotal	224,637	187,089
Less: Net deferred loan fees	(394)	(285)
Allowance for loan losses	(2,584)	(2,109)
Loans, net	$ 221,659	$ 184,695

Real estate loans include $4,836 and $4,454 in construction loans at September 30, 2007 and December 31, 2006.
Activity in the allowance for loan losses was as follows.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Beginning balance	$ 2,272	$ 1,988	$ 2,109	$ 1,495
Provision for loan losses	293	120	435	702
Loans charged-off	(28)	(79)	(37)	(229)
Recoveries	47	3	77	64
Ending balance	$ 2,584	$ 2,032	$ 2,584	$ 2,032

Nonperforming loans were as follows:

	September 30, 2007	December 31, 2006
Loans past due over 90 days still on accrual	$	$
Nonaccrual loans	196	297

Nonperforming loans include both smaller balance single-family mortgage and consumer loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans were not material for any period presented.

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

NOTE 3 STOCK COMPENSATION PLANS

The Company has two share-based compensation plans as described below. Total compensation cost that has been charged against income for those plans was $39 and $128 for the three and nine months ended September 30, 2007 and $29 and $138 for the three and nine months ended September 30, 2006. The total income tax benefit was $12 and $40 for the three and nine months ended September 30, 2007 and $10 and $47 for the three and nine months ended September 30, 2006.

Stock-based incentive plans provide for stock option grants and restricted stock awards to directors, officers and employees. The 1999 Stock-based Incentive Plan was approved by shareholders on July 13, 1999. The plan provided 193,887 shares for stock option grants and 77,554 shares for restricted stock awards. The 2003 Equity Compensation Plan was ratified by shareholders on April 23, 2003 and provided an aggregate of 100,000 shares for stock option grants and restricted stock awards, including up to a maximum of 30,000 shares for restricted stock awards. An amendment and restatement of the 2003 Equity Compensation Plan was approved by stockholders on April 20, 2004 to provide an additional 100,000 shares of Company stock for stock option grants and restricted stock awards, including up to a maximum of 30,000 shares for restricted stock awards. A second amendment and restatement of the 2003 Equity Compensation Plan was approved by stockholders on May 20, 2005 to provide an additional 100,000 shares of Company stock for stock option grants and restricted stock awards, including up to a maximum of 30,000 shares for restricted stock awards. A third amendment and restatement of the 2003 Equity Compensation Plan was approved by stockholders on May 17, 2007 to provide an additional 200,000 shares of Company stock for stock option grants and restricted stock awards, including up to a maximum of 60,000 shares for restricted stock awards.

Stock Options

The Plans permit the grant of share options to directors, officers and employees for up to 693,887 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are granted with an exercise price equal to the market price of the Company s common stock at the date of grant; those option awards generally have vesting periods ranging from 3 to 5 years and have 10-year contractual terms.

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

The fair value of options granted was determined using the following weighted average assumptions as of grant date for options granted during the three and nine months ended September 30, 2007. There were no options granted during the nine months ended September 30, 2006.

	Three months ended September 30, 2007	Nine months ended September 30, 2007
Risk-free interest rate	4.31%	4.61%
Expected option life (years)	6	6
Expected stock price volatility	19%	22%
Dividend yield	3.63%	4.66%

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

NOTE 3 STOCK COMPENSATION PLANS (continued)

A summary of stock option activity in the plan for the nine months ended September 30, 2007 follows:

	Nine months ended September 30, 2007			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value
Options outstanding, beginning of period	273,272	$ 11.23	6.7	
Granted	26,350	7.93	9.5	
Exercised				
Forfeited or expired				
Options outstanding, end of period	299,622	$ 10.94	6.2	$
Options exercisable, end of period	278,272	$ 11.21	6.0	$

Information related to the stock option plan during each period follows:

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Intrinsic value of options exercised	$	$	$	$
Cash received from option exercises				
Related tax benefit realized from option exercises				
Weighted average fair value of options granted, per share	0.12		0.99	

As of September 30, 2007, there was $15 of total unrecognized compensation cost related to nonvested stock options granted under the plan. The cost is expected to be recognized over a weighted-average period of 1.6 years.

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

NOTE 3 STOCK COMPENSATION PLANS (continued)

Restricted Stock Awards

The plans permit the grant of restricted stock awards to directors, officers and employees. Compensation expense is recognized over the vesting period of the shares based on the market value of the shares at issue date. Shares issuable under the plans totaled 60,000 at September 30, 2007, and 18,250 shares were issued during the nine months ended September 30, 2007. No shares were issued during the nine months ended September 30, 2006.

A summary of changes in the Company s nonvested shares for the period follows:

	Nine months ended September 30, 2007	
	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares outstanding at beginning of period	29,552	$ 11.36
Granted	18,250	7.35
Vested	(15,277)	12.05
Forfeited		
Nonvested shares outstanding at end of period	32,525	$ 8.79

As of September 30, 2007, there was $127 of total unrecognized compensation cost related to nonvested shares granted under the plans. The cost is expected to be recognized over a weighted-average period of 1.3 years. There were no shares vested during the three months ended September 30, 2007 and 2006. The total fair value of shares vested during the nine months ended September 30, 2007 and 2006 were $184 and $171.

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

NOTE 4 FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows.

	September 30, 2007	December 31, 2006
Maturity October 2007 at 5.08% floating rate	$ 39,975	$
Maturity January 2007 at 5.18% floating rate		21,250
Maturities March 2008 thru March 2010, fixed at rates from 2.90% to 5.60%, averaging 4.94% at September 30, 2007, and maturities March 2007 thru June 2009, fixed at rates from 2.44% to 5.60%, averaging 4.16% at December 31, 2006	10,200	11,270
Total	$ 50,175	$ 32,520

The fixed rate advances are due in full at their maturity date, with a penalty if prepaid. Floating rate advances can be prepaid at any time with no penalty.

The advances were collateralized as follows.

	September 30, 2007	December 31, 2006
First mortgage loans under a blanket lien arrangement	$ 26,216	$ 30,422
Second mortgage loans	605	679
Multi-family mortgage loans	9,812	12,580
Home equity lines of credit	9,163	10,495
Commercial real estate loans	57,221	35,028
Securities	15,929	10,748
Total	$ 118,946	$ 99,952

Based on this collateral and CFBank s holdings of FHLB stock, CFBank is eligible to borrow up to $66,653 at September 30, 2007.

<u>Payment information</u>

Required payments over the next five years are:

September 30, 2008	$ 41,975
September 30, 2009	7,200
September 30, 2010	1,000
Total	$ 50,175

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

NOTE 5 INCOME TAXES

The Company adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes,* on January 1, 2007. Adoption did not result in the recognition of a liability for unrecognized tax benefits. The Company and its subsidiaries file consolidated income tax returns in the U.S. federal jurisdiction and separate income tax returns in various state and local jurisdictions. The Company is no longer subject to U.S. federal or state tax examinations by tax authorities for years before 2003. Interest accrued related to unrecognized tax benefits will be recognized in interest expense and penalties in operating expenses.

NOTE 6 SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and mortgage banking operations. Loans, securities, deposits and servicing fees provide the revenues in the banking operation, and single-family residential mortgage loan sales provide the revenues in mortgage banking. All operations are domestic.

The accounting policies used are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using net income. Income taxes are allocated and transactions among segments are made at fair value. Parent and Other includes activities that are not directly attributed to the reportable segments and is comprised of the parent company and elimination entries between all segments. Information reported internally for performance assessment follows:

	Banking	Mortgage Banking	Parent and Other	Consolidated Total
For the three months ended September 30, 2007:				
Net interest income (expense)	$ 2,078	$ 11	$ (108)	$ 1,981
Provision for loan losses	(293)			(293)
Net gain (loss) on sales of loans	(14)	49		35
Other revenue	117	7	5	129
Depreciation and amortization	(162)	(6)		(168)
Other expense	(1,508)	(840)	(72)	(2,420)
Income (loss) before income tax	218	(779)	(175)	(736)
Income tax expense (benefit)	71	(265)	(59)	(253)
Net income (loss)	$ 147	$ (514)	$ (116)	$ (483)
For the three months ended September 30, 2006:				
Net interest income (expense)	$ 1,843	$ 26	$ (110)	$ 1,759
Provision for loan losses	(120)			(120)
Net gain (loss) on sales of loans	(16)	128		112
Other revenue	95	(1)	8	102
Depreciation and amortization	(102)	(40)		(142)
Other expense	(1,385)	(148)	(50)	(1,583)

Income (loss) before income tax	315	(35)	(152)	128
Income tax expense (benefit)	98	(12)	(52)	34
Net income (loss)	$ 217	$ (23)	$ (100)	$ 94

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

NOTE 6 SEGMENT INFORMATION (continued)

	Banking	Mortgage Banking	Parent and Other	Consolidated Total
For the nine months ended September 30, 2007:				
Net interest income (expense)	$ 5,896	$ 52	$ (320)	$ 5,628
Provision for loan losses	(435)			(435)
Net gain (loss) on sales of loans	(62)	269		207
Other revenue	352		20	372
Depreciation and amortization	(451)	(14)		(465)
Other expense	(4,509)	(1,047)	(255)	(5,811)
Income (loss) before income tax	791	(740)	(555)	(504)
Income tax expense (benefit)	249	(251)	(188)	(190)
Net income (loss)	$ 542	$ (489)	$ (367)	$ (314)
September 30, 2007				
Segment assets	$ 268,425	$ 1,024	$ 1,809	$ 271,258
For the nine months ended September 30, 2006:				
Net interest income (expense)	$ 5,240	$ 74	$ (309)	$ 5,005
Provision for loan losses	(702)			(702)
Net gain (loss) on sales of loans	(70)	309		239
Other revenue	354	(4)	22	372
Depreciation and amortization	(300)	(66)		(366)
Other expense	(4,077)	(443)	(228)	(4,748)
Income (loss) before income tax	445	(130)	(515)	(200)
Income tax expense (benefit)	143	(44)	(175)	(76)
Net income (loss)	$ 302	$ (86)	$ (340)	$ (124)
September 30, 2006				
Segment assets	$ 221,389	$ 2,517	$ 1,207	$ 225,113

NOTE 7 ARBITRATION LOSS

In December 2005, CFBank terminated the President of Reserve Mortgage Services, Inc. (Reserve), which had been acquired by the Company in October 2004, and later merged into CFBank. The former President filed a request for arbitration against CFBank and contended that CFBank owed him $600 for breaching an employment agreement between him and CFBank by discharging him without just cause. CFBank responded by denying that it breached the employment agreement in that CFBank had just cause to discharge him, alleging causes of action for breach of contract, breach of fiduciary duty, and breach of duty of loyalty. The arbitration hearing occurred from March through May of 2007. The arbitration panel s decision in September 2007 was unfavorable to CFBank, and CFBank incurred an arbitration loss of $641 which is included in salaries and employee benefits expense in the accompanying Consolidated Statements of Operations.

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

Forward-Looking Statements

This Form 10-QSB contains forward-looking statements which may be identified by the use of such words as may, believe, expect, anticipate, should, plan, estimate, predict, continue and potential or the negative of t other comparable terminology. Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operations and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to (i) general and local economic conditions, (ii) changes in interest rates, deposit flows, demand for mortgages and other loans, real estate values and competition, (iii) changes in accounting principles, policies or guidelines, (iv) changes in legislation or regulation and (v) other economic, competitive, governmental, regulatory and technological factors affecting our operations, pricing, products and services.

Any or all of our forward-looking statements in this Form 10-QSB and in any other public statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed and we caution readers not to place undue reliance on any such forward-looking statements. We undertake no obligation to publicly release revisions to any forward-looking statements to reflect events or circumstances after the date of such statements.

Business Overview

Central Federal Corporation is a unitary savings and loan holding company incorporated in Delaware in 1998. Our primary business is the operation of our principal subsidiary, CFBank, a federally chartered savings association formed in Ohio in 1892.

CFBank is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. CFBank s client-centric method of operation emphasizes personalized advisory services, clients access to decision makers, solution-driven lending and quick execution, efficient use of technology and the convenience of remote deposit, telephone banking, corporate cash management and online internet banking. CFBank attracts deposits from the general public and uses the deposits, together with borrowings and other funds, primarily to originate commercial and commercial real estate loans, single-family and multi-family residential mortgage loans and home equity lines of credit.

General

Our results of operations are dependent primarily on net interest income, which is the difference between the interest income earned on loans and securities and the cost of funds, consisting of interest paid on deposits and borrowed funds. Net interest income is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. Net income is also affected by, among other things, loan fee income, provisions for loan losses, service charges, gains on loan sales, operating expenses and franchise and income taxes. Operating expenses principally consist of employee compensation and benefits, occupancy and other general and administrative expenses. Results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may also materially impact our performance.

Management Strategy

We recorded a net loss for the quarter ended September 30, 2007 of ($483,000) or ($.11) per diluted share compared to net income of $94,000, or $.02 per diluted share in the prior year quarter. The net loss for the nine months ended September 30, 2007 totaled ($314,000) or ($.07) per diluted share compared to a net loss of ($124,000), or ($.03) per diluted share for the prior year period.

The net loss for the quarter and year to date period ended September 30, 2007 was primarily due to a $511,000, or $.12 per diluted share for the current quarter and $.11 per diluted share for the current year to date period, after-tax cost of an arbitration loss and lease termination expense. The arbitration loss of $641,000 resulted from an

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unfavorable decision in a request for arbitration brought by the former President of Reserve Mortgage Services, Inc., which had been acquired by the Company in October 2004, and later merged into CFBank, for breach of the employment agreement between him and CFBank. The lease termination expense of $133,000 resulted from the move of CFBank s mortgage banking operations to the Fairlawn office and negotiation of settlement of the remaining lease obligations at the former facility.

We continued to execute our strategic plan, and total assets increased $35.3 million or 19.9% on an annualized basis during the nine months ended September 30, 2007 and included $38.3 million, or 40.4% annualized growth in commercial, commercial real estate and multi-family loans. During the twelve months ended September 30, 2007, total assets increased $46.1 million or 20.5% and included $51.1 million or a 44.9% increase in commercial, commercial real estate and multi-family loans, which are the focus of our growth plan.

The flat/inverted yield curve continued to challenge our net earnings growth. Higher marginal funding expense affected the net interest margin growth. Although loan growth positively affected gross interest income, which increased 26.9% in the third quarter of 2007 compared to the prior year quarter, interest expense increased 40.2% during the same time frame resulting in a 12.6% increase in net interest income for the third quarter of 2007 compared to the prior year quarter. On a year-to-date basis, gross interest income increased 31.1% during the nine months ended September 30, 2007 compared to the prior year period, and interest expense increased 50.7% in the same time frame, resulting in a 12.4% increase in net interest income for the nine months ended September 30, 2007 compared to the prior year period.

Net interest margin declined from 3.45% in the third quarter of 2006 to 3.15% in the third quarter of 2007. On a year-to-date basis, net interest margin declined from 3.50% for the nine months ended September 30, 2006 to 3.17% for the current year period. The 50 basis point reduction in the federal funds rate on September 18, 2007 will reduce the impact of the flat/inverted yield curve, however management of the net interest margin in the current interest rate and competitive environment will be a challenge and continued pressure on margins is possible. CFBank continues to manage the net interest margin by matching asset and liability pricing closely to its business model. The Bank is liability sensitive with substantial liabilities being repriced during the next quarter.

Other than described above, we are not aware of any market or institutional trends, events or uncertainties that are expected to have a material effect on liquidity, capital resources or operations or any current recommendations by regulators which would have a material effect if implemented.

Financial Condition

General. Assets totaled $271.3 million at September 30, 2007 and increased $35.3 million or 14.9% from $236.0 million at December 31, 2006 due to growth in the loan portfolio, which was funded with deposits and Federal Home Loan Bank (FHLB) advances.

Securities. Securities available for sale totaled $28.9 million at September 30, 2007, a decrease of $399,000 or 1.4% compared to $29.3 million at December 31, 2006 due to current period purchases offset by security maturities and repayments on mortgage-backed securities.

Loans. Net loans totaled $221.7 million at September 30, 2007 and increased $37.0 million from $184.7 million at December 31, 2006. Commercial, commercial real estate and multi-family loans totaled $165.0 million at September 30, 2007 and increased $38.4 million from $126.6 million at December 31, 2006. Mortgage loans totaled $30.7 million at September 30, 2007 and increased $495,000 from $30.2 million at December 31, 2006 as most of our mortgage loan production was originated for sale. Consumer loans decreased $1.3 million and totaled $28.9 million at September 30, 2007 compared to $30.2 million at December 31, 2006 primarily due to repayments on home equity lines of credit and auto loans.

Deposits. Deposits totaled $186.5 million at September 30, 2007 and increased $18.9 million, or 11.3% from $167.6 million at December 31, 2006. The increase in deposits was due to an increase of $11.1 million in brokered certificate of deposit accounts, $5.3 million in money market accounts, $2.7 million in interest bearing checking

accounts and $926,000 in noninterest bearing deposits offset by a decline of $1.2 million in traditional savings account balances.

FHLB advances. FHLB advances totaled $50.2 million at September 30, 2007 and increased $17.7 million or 54.3% compared to $32.5 million at December 31, 2006. A $2.2 million economic development advance from the FHLB was drawn during the March 2007 quarter to fund construction of CFBank s new Columbus regional office in Worthington, which opened in June 2007. The remaining increase in FHLB advances was used to fund loan growth.

Shareholders equity. Shareholders equity totaled $27.1 million at September 30, 2007 and decreased $2.0 million or 6.9% compared to $29.1 million at December 31, 2006 as a result of the net loss for the year to date period, an $830,000 treasury stock purchase and $993,000 in dividends to shareholders.

Comparison of the Results of Operations for the Three Months Ended September 30, 2007 and 2006

General. Net loss for the three months ended September 30, 2007 totaled ($483,000), or ($.11) per diluted share compared to net income of $94,000, or $0.02 per diluted share in the prior year quarter. The net loss for the quarter ended September 30, 2007 was primarily due to the $511,000 after-tax cost of an arbitration loss and lease termination expense discussed previously. Sustained customer and asset growth resulting in improved profitability continues to be our focus.

Net interest income. Net interest income totaled $2.0 million for the quarter ended September 30, 2007 and increased $222,000 or 12.6% compared to $1.8 million for the quarter ended September 30, 2006. Both the volume and yield on interest-earning assets increased in the third quarter of 2007 compared to the prior year quarter. The resultant growth in interest income was partially offset by increased interest expense due to an increase in volume and cost of interest-bearing liabilities in the current year quarter.

Average interest-earning assets increased $48.3 million or 23.8% to $251.8 million in the third quarter of 2007 from $203.5 million in the third quarter of 2006 due to an increase in loan balances offset by a decrease in the average balance of securities and FHLB stock. The yield on interest-earning assets increased 20 basis points (bp) to 7.38% in the third quarter of 2007 from 7.18% in the prior year quarter and reflected higher yields on the loan portfolio. Interest income increased $986,000 or 26.9% to $4.6 million in the third quarter of 2007 from $3.7 million in the prior year quarter due to growth in interest income on loans. Interest income on loans increased $995,000 or 30.8% to $4.2 million for the quarter ended September 30, 2007 from $3.2 million in the prior year quarter due to an increase in both volume and yield on loans. Average loan balances increased $49.3 million, or 28.9% to $219.7 million in the third quarter of 2007 from $170.4 million in the prior year quarter. The average yield on loans increased 12 bp to 7.69% in the third quarter of 2007 from 7.57% in the prior year quarter. Both the increase in average balance and average yield was due to growth in commercial, commercial real estate and multi-family mortgage loans, which tend to be at higher rates than other loan types in the portfolio. These loans represented 73.5% of the total loan portfolio at September 30, 2007 compared to 66.1% at September 30, 2006.

Average interest-bearing liabilities increased $47.8 million or 26.5% to $227.8 million in the third quarter of 2007 from $180.0 million in the third quarter of 2006 due to increases in the average balance of deposits and FHLB advances and other debt. The average cost of interest-bearing liabilities increased 46 bp, or 10.9% to 4.68% in the third quarter of 2007 from 4.22% in the third quarter of 2006 primarily due to higher competitive market interest rates for customer deposits and borrowings in the current year quarter. Interest expense on deposits increased $498,000 or 34.9% to $1.9 million for the quarter ended September 30, 2007 from $1.4 million in the prior year quarter. Average deposit balances increased $27.8 million or 19.3% to $172.4 million in the third quarter of 2007 from $144.6 million in the prior year quarter due to an increase in interest-bearing checking, money market and certificate of deposit accounts. The average cost of deposits increased 52 bp to 4.46% in the third quarter of 2007 from 3.94% in the prior year quarter and reflected higher competitive market interest rates, primarily for money market accounts and certificates of deposit during the current year quarter. Interest expense on FHLB advances and other debt increased $268,000 to $633,000 in the third quarter of 2007 from $365,000 in the prior year quarter due to a $19.9 million increase in average borrowing balances in the third quarter of 2007 to $50.2 million compared to

$30.3 million in the prior year quarter as FHLB advances were used to fund loan growth. The cost of FHLB advances and other debt increased 22bp, or 4.6% to 5.04% in the third quarter of 2007 from 4.82% in the prior year quarter as a result of maturities of advances that were repriced at higher current market rates and a higher level of variable rate, overnight advances during the current year period.

Net interest margin decreased 30 bp to 3.15% for the quarter ended September 30, 2007 compared to 3.45% in the prior year quarter. The level of short-term market interest rates, a flat to inverted yield curve and increased local competition for both loans and deposits continued to negatively affect net interest margin. The 50 basis point reduction in the federal funds rate on September 18, 2007 will reduce the impact of the flat/inverted yield curve; however, management of the net interest margin in the current interest rate and competitive environment will be a challenge, and continued pressure on margins is possible.

Provision for loan losses. Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the performance of the loan portfolio giving consideration to economic conditions, changes in interest rates and the effect of such changes on real estate values, and changes in the composition of the loan portfolio. The allowance for loan losses is established through a provision for loan losses based on management s evaluation of the risk in the loan portfolio. The evaluation includes a review of all loans for which full collectability may not be reasonably assured and considers, among other factors, the estimated fair value of the underlying collateral, economic conditions, historical loan loss experience, changes in the size and growth of the loan portfolio and additional factors that warrant recognition in providing for an adequate loan loss allowance. Future additions to the allowance for loan losses will be dependent on these factors.

CFBank continues to provide reserves for loan losses in relation to its loan growth, portfolio composition, current economic conditions and ascertainable credit risk information available each quarter. Since commercial lending began in 2003, the Bank has provided a total of $2.7 million to increase the allowance for loan losses as the commercial lending portfolio has grown. To date the Bank has not incurred a loss on a commercial loan asset.

Based on management s review, the provision for loan losses totaled $293,000 in the third quarter of 2007, an increase of $173,000 from $120,000 in the prior year quarter. The Bank provided a larger loan loss provision in the current three month period than the comparable prior period due to management s review of current facts and judgment regarding changes in the risk characterization of the portfolio. Management continues to maintain a conservative approach to risk ratings and increases the allowance for both changes in judgment and facts until such time that the Bank can accurately establish its loan losses through actual experience.

CFBank continued to experience low levels of nonperforming loans and net loan charge-offs. Nonperforming loans decreased $136,000, or 41.0% and totaled $196,000 or 0.09% of total loans at September 30, 2007 compared to $332,000 or 0.19% of total loans at September 30, 2006. The composition of the nonperforming balances for both periods was seasoned single-family mortgage loans. Net (recoveries) totaled ($19,000) or (.03%) on an annualized basis of average loans during the quarter ended September 30, 2007 compared to net charge-offs of $76,000 or 0.18% on an annualized basis of average loans during the prior year quarter.

The ratio of the allowance for loan losses to total loans was 1.15% at September 30, 2007 and 1.13% at December 31, 2006.

Management continues to prudently monitor credit quality in the existing portfolio and analyzes potential loan opportunities carefully in order to manage credit risk while implementing a growth strategy. We believe the allowance for loan losses is adequate to absorb probable incurred credit losses in the loan portfolio at September 30, 2007; however, future additions to the allowance may be necessary based on changes in client business performance, economic conditions, and sudden changes in real estate values, as well as many other factors.

Noninterest income. Noninterest income totaled $164,000 for the quarter ended September 30, 2007 and was $50,000 or 23.4% lower than the quarter ended September 30, 2006 due to a decrease in net gain on sales of loans offset by an increase in service charges on deposit accounts. Net gain on sales of loans decreased 68.8% from the

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prior year quarter and totaled $35,000 during the quarter ended September 30, 2007 compared to $112,000 during the quarter ended September 30, 2006 due to a lower level of mortgage loan originations during the current year period. Service charges on deposit accounts increased $19,000 due to an increase in nonsufficient funds (NSF) fee income.

Noninterest expense. Noninterest expense totaled $2.6 million for the quarter ended September 30, 2007, and included the $774,000 pre-tax arbitration loss and lease termination expense discussed previously. Salaries and employee benefits expense included $641,000 arbitration loss; occupancy and equipment expense included $100,000 lease termination expenses; and other expense included $33,000 in lease termination expenses for the quarter ended September 30, 2007.

Noninterest expense in the third quarter of 2007, not including these expenses, totaled $1.8 million and increased $89,000 or 5.2% compared to $1.7 million in the prior year quarter. The increase in noninterest expense in the current year period was due to costs associated with additional operational resources necessary to further our strategic growth plan. Additional expenses were incurred in the current year period for the opening of CFBank s office in Worthington, Ohio, replacing the office at Easton Town Center in Columbus, Ohio. Noninterest expenses in the current year period were also incurred for marketing, advertising and additional human resources necessary to support growth.

Income taxes. Income tax benefit totaled $253,000 for the quarter ended September 30, 2007 compared to expense of $34,000 in the prior year quarter due to the pretax loss in the current year period.

Comparison of the Results of Operations for the Nine months Ended September 30, 2007 and 2006

General. The net loss for the nine months ended September 30, 2007 totaled ($314,000) or ($.07) per diluted share compared to a net loss of ($124,000) or ($.03) per diluted share for the prior year period. The net loss for the nine months ended September 30, 2007 was primarily due to the $511,000 after-tax cost of the arbitration loss and lease termination expense described previously.

Net interest income. Net interest income totaled $5.6 million for the nine months ended September 30, 2007, an increase of $623,000 or 12.4% compared to $5.0 million for the nine months ended September 30, 2006. Both the volume and yield on interest-earning assets increased in the nine months ended September 30, 2007 compared to the prior year period. The resultant growth in interest income was partially offset by increased interest expense due to an increase in both the volume and cost of interest-bearing liabilities in the current year period.

Average interest-earning assets increased $46.4 million or 24.4% to $236.8 million for the nine months ended September 30, 2007 from $190.4 million for the nine months ended September 30, 2006 due to loan growth offset by a decline in the average balance of securities. The yield on interest-earning assets increased 37 bp to 7.21% for the nine months ended September 30, 2007 from 6.84% in the prior year period reflecting higher yields on the loan portfolio which resulted from growth in commercial, commercial real estate and multi-family loans during the current year period. Interest income increased $3.0 million or 31.1% to $12.8 million in the nine months ended September 30, 2007 from $9.8 million in the prior year period due to growth in interest income on loans offset by a decline in income on securities. Interest income on loans increased $3.1 million or 37.4% to $11.5 million for the nine months ended September 30, 2007 from $8.4 million in the prior year period due to an increase in both volume and yield on loans. Average loan balances increased $48.6 million, or 31.3% to $204.0 million in the nine months ended September 30, 2007 from $155.4 million in the prior year period. The average yield on loans increased 34 bp to 7.54% in the nine months ended September 30, 2007 from 7.20% in the prior year period. Both the increase in the average balance of loans and yield on loans was due to growth in commercial, commercial real estate and multi-family mortgage loans, which tend to be at higher rates than other loan types in the portfolio. These loans represented 73.5% of the total loan portfolio at September 30, 2007 compared to 66.1% at September 30, 2006. Interest income on securities decreased $71,000 or 5.8% due to a decline in both the volume and yield on securities. Average securities balances decreased $1.2 million or 3.7% and totaled $30.3 million in the nine months ended September 30, 2007 compared to $31.5 million in the prior year period due to security maturities and principal

repayments on mortgage-backed securities. The average yield on securities declined 9 bp to 5.09% during the nine months ended September 30, 2007 from 5.18% in the prior year period.
Average interest-bearing liabilities increased $46.1 million or 27.8% to $212.1 million in the nine months ended September 30, 2007 from $166.0 million in the nine months ended September 30, 2006 due to an increase in the average balance of both deposits and borrowings. The average cost of interest-bearing liabilities increased 69 bp, or 18.0% to 4.52% in the nine months ended September 30, 2007 compared to 3.83% in the nine months ended September 30, 2006 primarily due to higher market interest rates in the current year period which increased both deposit and borrowing costs. Interest expense on deposits increased $1.7 million, or 47.1% to $5.3 million for the nine months ended September 30, 2007 from $3.6 million in the prior year period. Average deposit balances increased $29.0 million, or 21.7% to $162.5 million in the nine months ended September 30, 2007 from $133.5 million in the prior year period due to an increase in interest-bearing checking, money market and certificate of deposit accounts. The average cost of deposits increased 76 bp to 4.36% in the nine months ended September 30, 2007 from 3.60% in the prior year period and reflected higher competitive market interest rates, primarily for money market accounts and certificates of deposit during the current year period. Interest expense on FHLB advances and other debt increased $705,000 to $1.6 million in the nine months ended September 30, 2007 from $850,000 in the prior year period due to a $17.1 million increase in average borrowing balances in the nine months ended September 30, 2007 to $44.4 million compared to $27.3 million in the prior year period as FHLB advances were used to fund loan growth and construction costs of the Worthington office. The average cost of borrowings increased 52 bp to 4.67% in the nine months ended September 30, 2007 from 4.15% in the prior year period due to maturities of low rate advances that were repriced at higher current market rates and a higher level of variable rate, overnight advances during the current year period.
Net interest margin decreased 33 bp to 3.17% for the nine months ended September 30, 2007 compared to 3.50% in the prior year period. The level of short-term market interest rates, a flat to inverted yield curve and increased local competition for both loans and deposits continued to negatively affect net interest margin.
Provision for loan losses. The provision totaled $435,000 in the nine months ended September 30, 2007 compared to $702,000 for the nine months ended September 30, 2006. The current year period provision was lower than the prior year period since no significant credit problems have appeared as the commercial, commercial real estate and multi-family loan portfolio has become more seasoned. This resulted in lower allocations to the allowance on loans with satisfactory risk ratings and a lower provision for loan losses for the nine months ended September 30, 2007. CFBank continued to experience low levels of nonperforming loans and net loan charge-offs. Nonperforming loans totaled $196,000 or 0.09% of total loans at September 30, 2007 compared to $297,000 or 0.16% of total loans at December 31, 2006. The composition of the nonperforming balances for both periods was seasoned single-family mortgage loans. Net (recoveries) totaled ($40,000) or (.03%) on an annualized basis of average loans during the nine months ended September 30, 2007 compared to net charge-offs of $165,000 or 0.14% on an annualized basis of average loans during the prior year period.
Noninterest income. Noninterest income totaled $579,000 for the nine months ended September 30, 2007 and was $32,000, or 5.2% lower than during the nine months ended September 30, 2006 due to a decline in gains on sales of loans and other income offset by an increase in service charges on deposit accounts. Net gain on sales of loans decreased $32,000, or 13.4% and totaled $207,000 for the nine months ended September 30, 2007 compared to $239,000 for the nine months ended September 30, 2006 due to a lower volume of loans originated for sale in the current year period. Other income included a $43,000 gain on the sale of a parcel of land at CFBank s Calcutta, Ohio office to the State of Ohio through eminent domain in the 2006 period. Service charges on deposit accounts increased $39,000 during the current year period due to an increase in NSF fee income.
Noninterest expense. Noninterest expense increased $1.2 million and totaled $6.3 million in the nine months ended September 30, 2007, and included the $774,000 pre-tax arbitration loss and lease termination expense described previously. Salaries and employee benefits expense included $641,000 arbitration loss expenses; occupancy and equipment expense included $100,000 lease termination expenses; and other expense included $33,000 in lease

termination expenses for the current year to date period.

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Noninterest expense for the nine months ended September 30, 2007, not including these expenses, totaled $5.5 million and increased $388,000, or 7.6% from the prior year period. The increase in noninterest expense in the current year period was due to costs associated with additional operational resources necessary to further our strategic growth plan. Management leveraged growth during calendar year 2006 and was able to grow assets by 36.4% or $63.0 million with no increase in noninterest expense during that year. Additional expenses were incurred in the current year period for the opening of CFBank s office in Worthington, Ohio. Noninterest expenses in the current year period were also incurred for marketing, advertising and additional human resources necessary to support growth.

Income taxes. Income tax benefit totaled $190,000 for the nine months ended September 30, 2007 compared to $76,000 for the nine months ended September 30, 2006 due to an increase in the pretax loss in the current year period.

Critical Accounting Policies

We follow financial accounting and reporting policies that are in accordance with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies are presented in Note 1 to our audited consolidated financial statements in our 2006 Annual Report to Shareholders incorporated by reference into our 2006 Annual Report on Form 10-KSB. Some of these accounting policies are considered to be critical accounting policies, which are those policies that require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Application of assumptions different than those used by management could result in material changes in our financial position or results of operations. We believe that the judgments, estimates and assumptions used in the preparation of the consolidated financial statements are appropriate given the factual circumstances at the time.

We have identified accounting policies that are critical accounting policies, and an understanding of these is necessary to understand our financial statements. One critical accounting policy relates to determining the adequacy of the allowance for loan losses. The Allowance for Loan and Lease Losses Policy provides a thorough, disciplined and consistently applied process that incorporates management s current judgments about the credit quality of the loan portfolio into determination of the allowance for loan losses in accordance with generally accepted accounting principles and supervisory guidance. Management estimates the required allowance balance using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Management believes that an adequate allowance for loan losses has been established. Additional information regarding this policy is included in the previous sections captioned Provision for Loan Losses and in the notes to the consolidated financial statements in our 2006 Annual Report to Shareholders incorporated by reference into our 2006 Annual Report on Form 10-KSB, Note 1 (Summary of Significant Accounting Policies) and Note 3 (Loans).

Another critical accounting policy relates to valuation of the deferred tax asset for net operating losses. Net operating losses totaling $2.2 million, $2.7 million and $431,000 expire in 2023, 2024 and 2025, respectively. No valuation allowance has been recorded against the deferred tax asset for net operating losses because the benefit is more likely than not to be realized. As we continue our strategy to expand into business financial services and focus on growth, the resultant increase in interest-earning assets is expected to increase profitability. Additional information is included in Notes 1 and 13 to our audited consolidated financial statements in our 2006 Annual Report to Shareholders incorporated by reference into our 2006 Annual Report on Form 10-KSB.

Liquidity and Capital Resources

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

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Item 2.
MANAGEMENT S DISCUSSION AND ANALYSIS

funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition.

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

Liquidity management is both a daily and long-term responsibility of management. We adjust our investments in liquid assets, primarily cash, short-term investments and other assets that are widely traded in the secondary market, based on management s assessment of expected loan demand, deposit flows, yields available on interest-earning deposits and securities, and the objective of our asset/liability management program. In addition to liquid assets, we have other sources of liquidity available including, but not limited to, access to advances from the FHLB, use of brokered deposits and the ability to obtain deposits by offering above-market interest rates.

CFBank relies primarily on competitive rates, customer service and relationships with customers to retain deposits. Based on our historical experience with deposit retention and current retention strategies, we believe that, although it is not possible to predict future terms and conditions upon renewal, a significant portion of deposits will remain with CFBank.

At September 30, 2007, CFBank exceeded all of its regulatory capital requirements to be considered well-capitalized with a Tier 1 capital level of $22.7 million, or 8.5% of adjusted total assets, which exceeds the required level of $13.4 million, or 5.0%; Tier 1 risk-based capital level of $22.7 million, or 9.8% of risk-weighted assets, which exceeds the required level of $13.9 million, or 6.0%; and risk-based capital of $25.3 million, or 10.9% of risk-weighted assets, which exceeds the required level of $23.1 million, or 10.0%.

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CENTRAL FEDERAL CORPORATION

Item 3.

CONTROLS AND PROCEDURES

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

Changes in internal control over financial reporting. We made no change in our internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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CENTRAL FEDERAL CORPORATION
PART II. Other Information

Item 1. Legal Proceedings

Information required by Item 103 of Regulation S-B is incorporated by reference to our 2006 Annual Report on Form 10-KSB filed with the SEC on March 29, 2007 under the caption Item 3. Legal Proceedings . Also see Note 7 Arbitration contained in the Notes to Consolidated Financial Statements included in this Form 10-QSB.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 - 31, 2007				400,000 (1)
August 1 - 31, 2007				400,000
September 1 - 30, 2007				400,000

(1) On June 22, 2007, the Company announced a 400,000 share repurchase program to begin on June 26, 2007.

Item 6. Exhibits

(a)

Exhibit Number	Exhibit
3.1*	Certificate of Incorporation
3.2*	Bylaws
4.0*	Form of Common Stock Certificate

11.1	Statement Re: Computation of Per Share Earnings
31.1	Rule 13a-14(a) Certifications of the Chief Executive Officer
31.2	Rule 13a-14(a) Certifications of the Chief Financial Officer
32.1	Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer

* Incorporated by reference to the Exhibits included with the registrant s Registration Statement on Form SB-2 No. 333-64089, filed with the Commission on September 23, 1998

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CENTRAL FEDERAL CORPORATION
SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CENTRAL FEDERAL CORPORATION
Dated: November 13, 2007	By: /s/ Mark S. Allio Mark S. Allio Chairman of the Board, President and Chief Executive Officer
Dated: November 13, 2007	By: /s/ Therese Ann Liutkus Therese Ann Liutkus, CPA Treasurer and Chief Financial Officer