

COMMUNITY CENTRAL BANK CORP

Form 10-Q

May 17, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q**

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

**For the quarterly period ended March 31, 2010**

**Commission File No. 000-33373**

**COMMUNITY CENTRAL BANK CORPORATION**

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

Michigan 38-3291744  
(State or other jurisdiction of incorporation or (IRS Employer Identification No.)  
organization)

100 North Main Street, PO Box 7, Mount Clemens, MI 48046-0007

(Address of principal executive offices and zip code)

(586) 783-4500

(Issuer's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

(Do not check if a smaller reporting company)

Indicated 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:

Class	Outstanding at May 17, 2010
Common Stock	3,737,181 Shares

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FORM 10-Q (continued)**PART I****Item 1. Financial Statements**  
**Consolidated Balance Sheet**

	March 31, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
Assets		
Cash and due from banks	\$ 41,765	\$ 33,115
Federal funds sold	26,212	1,048
Cash and Cash Equivalents	67,977	34,163
Securities available for sale, at fair value	49,162	65,903
Securities held to maturity, at amortized cost	3,681	3,467
FHLB stock	5,877	5,877
Residential mortgage loans held for sale	3,801	3,497
Loans		
Commercial real estate	276,857	273,578
Commercial and industrial	44,535	48,782
Residential real estate	49,792	51,101
Home equity lines of credit	21,647	21,889
Consumer loans	6,742	6,961
Credit card loans	771	856
Total Loans	400,344	403,167
Allowance for credit losses	(14,508)	(12,957)
Net Loans	385,836	390,210
Net property and equipment	8,962	9,106
Accrued interest receivable	1,990	1,878
Other real estate	8,597	9,300
Goodwill	638	638
Intangible assets, net of amortization	51	57
Cash surrender value of Bank Owned Life Insurance	11,364	11,285
Other assets	7,783	8,465
Total Assets	\$ 555,719	\$ 543,846

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COMMUNITY CENTRAL BANK CORPORATION  
 FORM 10-Q (continued)  
**Consolidated Balance Sheet**

	March 31, 2010 (Unaudited)	December 31, 2009
	(In thousands)	
Liabilities		
Deposits		
Noninterest bearing demand deposits	\$ 52,984	\$ 45,716
NOW and money market accounts	41,647	41,872
Savings deposits	9,138	8,800
Time deposits	322,446	304,743
Total Deposits	426,215	401,131
Repurchase agreements	36,407	41,106
Federal Home Loan Bank advances	65,700	65,700
Accrued interest payable	514	618
Other liabilities	3,263	2,937
Subordinated debentures at fair value option	7,865	8,366
Total Liabilities	539,964	519,858
Stockholders' Equity		
Preferred stock (1,000,000 \$1,000 par value shares authorized and 7,775 shares and 7,265 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively.)	7,645	7,146
Common stock (No par value; 9,000,000 shares authorized, and 3,737,181 outstanding at March 31, 2010 and December 31, 2009)	32,242	32,214
Accumulated deficit	(24,360)	(15,536)
Accumulated other comprehensive income	228	164
Total Stockholders' Equity	15,755	23,988
Total Liabilities and Stockholders' Equity	\$ 555,719	\$ 543,846

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## COMMUNITY CENTRAL BANK CORPORATION

FORM 10-Q (continued)

**Consolidated Statements of Income**

(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands, except per share data)	
Interest Income		
Loans (including fees)	\$ 5,869	\$ 6,260
Taxable securities	498	938
Tax exempt securities	15	114
Federal funds sold	22	6
<b>Total Interest Income</b>	<b>6,404</b>	<b>7,318</b>
Interest Expense		
NOW and money market accounts	66	84
Savings deposits	14	17
Time deposits	2,264	2,652
Repurchase agreements and fed funds purchased	296	317
Federal Home Loan Bank advances	772	1,138
Subordinated debentures	311	302
<b>Total interest expense</b>	<b>3,723</b>	<b>4,510</b>
<b>Net Interest Income</b>	<b>2,681</b>	<b>2,808</b>
Provision for Credit Losses	8,200	2,550
<b>Net Interest Income after Provision for Credit Losses</b>	<b>(5,519)</b>	<b>258</b>
Noninterest Income		
Fiduciary income	66	83
Deposit service charges	91	95
Net realized security gain	78	128
Change in fair value of assets/liabilities carried at fair value under SFAS 159	501	232
Mortgage banking income	704	471
Other income	378	205
<b>Total noninterest income</b>	<b>1,818</b>	<b>1,214</b>
Noninterest Expense		
Salaries, benefits and payroll taxes	2,234	1,932
Net occupancy expense	458	463
Other operating expense	2,295	1,479

Total noninterest expense	4,987	3,874
(Loss) Before Taxes	(8,688)	(2,402)
Provision for Income Tax (Benefit) Expense		(858)
Net (loss)	\$ (8,688)	\$ (1,544)
Dividends declared on preferred shares	136	50
Net (loss) available on common shares	\$ (8,824)	\$ (1,594)
<i>Per share data:</i>		
Basic earnings (loss)	\$ (2.36)	\$ (0.43)
Diluted earnings (loss)	\$ (2.36)	\$ (0.43)
Cash dividends per common share	\$	\$



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COMMUNITY CENTRAL BANK CORPORATION  
FORM 10-Q (continued)

**Consolidated Statements of Comprehensive Income**

(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Net Loss as Reported	(\$8,688)	(\$1,544)
Other Comprehensive Income, Net of Tax		
Change in unrealized net gain on securities available for sale	64	191
Comprehensive Loss	(\$8,624)	(\$1,353)

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COMMUNITY CENTRAL BANK CORPORATION  
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**Consolidated Statements of Cash Flow**  
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
	(In thousands)	
Operating Activities		
Net Loss	(\$8,688)	(\$1,544)
Adjustments to reconcile net loss to net cash flow from operating activities:		
Net amortization of security premium	(235)	33
Net gain on available for sale securities	(78)	(128)
Net gain on instruments at fair value	(501)	(232)
Provision for credit losses	8,200	2,550
Depreciation expense (benefit)	(175)	163
Deferred income tax benefit		(769)
Fair value of employee stock option expense	28	20
Decrease (increase) in accrued interest receivable	(112)	190
(Increase) decrease in other assets	(2,874)	3,454
(Decrease) in accrued interest payable	(104)	(423)
Increase (decrease) in other liabilities	326	(1,040)
(Increase) in loans sold held for sale	(304)	(7,571)
(Increase) decrease in other real estate	703	(606)
<b>Net Cash Used in Operating Activities</b>	<b>(3,814)</b>	<b>(5,903)</b>
Investing Activities		
Sales, maturities, calls and prepayments of securities available for sale	20,889	30,931
Purchases of securities available for sale	(3,985)	(23,397)
Maturities, calls, sales and prepayments of trading securities		17,463
Transfer and purchase of trading securities		(1,737)
Maturities, calls, and prepayments of held to maturity securities	33	27
Purchases of held to maturity securities		(336)
Increase in loans	(26)	(16,615)
Purchases of property and equipment	(31)	(50)
<b>Net Cash Provided by Investing Activities</b>	<b>16,880</b>	<b>6,286</b>
Financing Activities		
Net increase in demand and savings deposits	7,381	11,449
Net (decrease) increase in time deposits	17,703	(1,125)
Net decrease in short term borrowings	(4,699)	(2,094)
FHLB advance repayments		(5,500)
Preferred Stock Issuance	499	500
Preferred Stock dividend paid	(136)	(49)
<b>Net Cash Provided by Financing Activities</b>	<b>20,748</b>	<b>3,181</b>

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Increase in Cash and Cash Equivalents	33,814	3,564
Cash and Cash Equivalents at the Beginning of the Period	34,163	16,162
Cash and Cash Equivalents at the End of the Period	\$ 67,977	\$ 19,726
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 3,827	\$ 4,933
Federal Taxes Paid		
Loans transferred to other real estate owned	\$ 524	\$ 606

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## COMMUNITY CENTRAL BANK CORPORATION

## FORM 10-Q (continued)

1. The financial statements of Community Central Bank Corporation (the Corporation ) include the consolidation of its wholly-owned subsidiaries: Community Central Bank (the Bank ) and Community Central Mortgage Company, LLC (the Mortgage Company ).

The Corporation's Consolidated Balance Sheets are presented as of March 31, 2010 and December 31, 2009, and Consolidated Statements of Income and Comprehensive Income for the three month periods ended March 31, 2010 and 2009, and Consolidated Statements of Cash Flow for the three months ended March 31, 2010 and 2009. These unaudited financial statements are for interim periods and do not include all disclosures normally provided with annual financial statements. The interim statements should be read in conjunction with the financial statements and footnotes contained in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. In the opinion of management, the interim statements referred to above contain all adjustments (consisting of normal, recurring items) necessary for a fair presentation of the financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year.

**New Accounting Pronouncements:**

2. The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America and general practices within the banking industry. The following describes the critical accounting policies employed in the preparation of financial statements.

**Allowance for Loan Losses:** The allowance for loan losses is maintained at a level considered by management to be adequate to absorb losses inherent in existing loans and loan commitments. The adequacy of the allowance is based on evaluations that take into consideration such factors as prior loss experience, changes in the nature and volume of the portfolio, overall portfolio quality, loan concentrations, specific impaired or problem loans and commitments, current economic conditions that may affect the borrower's ability to pay and other subjective factors. The determination of the allowance is also based on regulatory guidance. This guidance includes, but is not limited to, generally accepted accounting principles and guidance issued from other regulatory bodies, such as the joint policy statement issued by the Federal Financial Institutions Examination Council.

**Income Taxes:** Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

We recognize a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. We recognize interest and/or penalties related to income tax matters in income tax expense.

The realization of deferred tax assets (net of a recorded valuation allowance) is largely dependent upon future taxable income, future reversals of existing taxable temporary differences and the ability to carry back losses to available tax years. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including taxable income in carry back years, scheduled reversals of deferred tax liabilities, expected future taxable income and tax planning strategies.

3. On February 13, 2007, Community Central Bank Corporation issued \$18.0 million aggregate liquidation amount of cumulative trust preferred securities through Community Central Capital Trust II, a statutory trust formed by the Corporation for the purpose of issuing the securities (the Trust II Securities ). The Trust II securities bear a fixed distribution rate of 6.71% per annum through March 6, 2017, and thereafter will bear a floating distribution rate equal to 90-day LIBOR plus 1.65%. The Trust II Securities are redeemable at the Corporation's option, in whole or in part, at par beginning March 6, 2017, and if not sooner redeemed mature on March 6, 2037. The Trust II Securities were sold in a private transaction exempt from registration under the Securities Act of 1933, as amended.

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4. The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

**Fair Value Hierarchy**

Under ASC 820, *Fair Value Measurements*, the Corporation groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation contains unobservable input(s) and is used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity. Level 3 instruments typically include, in addition to unobservable or Level 3 components, observable components.

Management has elected the fair value option for the following reasons for each of the eligible items or group of similar eligible items.

**Investment Securities:**

In the first quarter of 2009, the Corporation elected to sell substantially all of the investment securities recorded as trading securities, and to unwind the hedging interest rate swap position with the counterparty which resulted in realizing a combined net loss of \$400,000 in 2009. This was based on management's determination that the combination of the securities and interest rate swap would no longer provide a benefit to the Corporation in the current historically low interest rate environment. The Corporation had held the securities and interest rate swap for an extended amount of time under ASC 825, *Financial Instruments, the Fair Value Option*.

**Subordinated Debentures:**

Management elected the fair value option for its subordinated debenture. Management considers the subordinated debenture a critical component for future growth and wished to utilize interest rate swaps at that point in time to hedge the risk of this longer term liability. Management elected the fair value option accounting treatment for interest rate swaps because it was less complex than alternative methods and therefore suitable for a community bank with limited resources. Management has elected the fair value option on the subordinated debenture which was issued on February 13, 2007 for \$18.6 million. Additionally, an interest rate swap for a like kind notional value was secured, in part, to reduce any volatility associated with the recognition of the fair value option under ASC 825, *Financial Instruments, the Fair Value Option*. Under the interest rate swap, the Corporation has agreed to receive a fixed rate of 6.71% and pay Libor plus 170 basis points. The debenture carries an interest rate fixed for 10 years at 6.71%, and was originally based on a ten year treasury interest rate swap of 5.06%, plus 165 basis points and was, prior to the settlement of the interest rate swap, hedging market fluctuations. In the first quarter of 2009, the Corporation elected to unwind the interest rate swap position with the counterparty which resulted in realizing \$3.3 million, which represented substantially all of the unrealized gains which had been recorded as noninterest income, under the fair value option through December 31, 2008. This was based on management's determination that the interest rate swap would no longer provide a benefit to the Corporation.

Management has the intent to utilize the fair value option on selected financial assets and liabilities on a go forward basis.

The valuations of the instruments measured under ASC 820, *Fair Value Measurements*, for 2007 were measured under a market approach using matrix pricing investment for investment securities and the income approach using observable data for the liabilities reported under ASC 825, *Financial Instruments, Fair Value Option*. The inputs were observable



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for the asset and liability yields on commonly quoted intervals based on similar assets and liabilities for level 2 instruments. Community Central Bank Corporation does not have a credit rating through any major credit research credit rating facility. The Trust Preferred Market from which a basis for pricing on the subordinated debenture is arrived at is reflective of changes in the commercial banking environment. The determination of fair value of the subordinated debenture is considered by management to be reflective of the current assessments as to the market for fixed rate trust preferred and subordinated debentures of similar duration and characteristics. During several quarterly periods, the trust preferred market reflected only a small base of participants in the market place. The disarray in the credit markets contributed to the lack of market transactions in this financial instrument. Under ASC 820, *Fair Value Measurements and Disclosures*, management evaluated factors to determine whether there has been a significant decrease in volume of activity for the liability compared to normal market activity. Based on the factors observable to management contained in ASC 820, *Fair Value Measurements and Disclosures*, management concluded that quoted prices may not be determinative of fair value. Management also evaluated the circumstances to determine whether the issuance of subordinated debentures and trust preferred securities was orderly based on the weight of evidence available. Based on the factors contained in ASC 820, *Fair Value Measurements and Disclosures*, management concluded the market for bank subordinated debentures and trust preferred securities was not orderly. Management has used all observable data available, including the market data for subordinated debentures and trust preferred securities traded as assets, to obtain additional observable information. The inputs and valuation techniques used by management to determine fair value included pricing models for like type financial instruments priced to a yield to maturity of that instrument. Management uses market surveys for like type instruments in aiding the valuation process. Management also considers market data for the issuance of subordinated debentures in evaluating the appropriate fair value of the instrument. Multiple inputs are used in the valuation process including assumptions on credit spreads, projected yield curves and other modeling techniques used in pricing financial instruments to determine the fair value after incorporating all known factors and adjustments which may be significant. A determination was made, based upon the significance of unobservable parameters as of March 31, 2010 to the overall fair value measurement, to continue to report the subordinated debentures under level 3 significant unobservable inputs. In addition to the unobservable components, or level 3 components, observable components that can be validated to external sources are part of the validation methodology. The net change in fair value associated with all instruments recorded under ASC 825, *Financial Instruments, Fair Value Option*, totaled \$501,000 for the first three months of 2010, versus \$232,000 for the first three months of 2009. The increase was primarily related to larger gains recorded in the fair market value of the subordinated debenture connected with the issuance of trust preferred securities.

The dramatic widening of market credit spreads for this instrument favorably impacted the relative fair value of this financial liability. Changes in credit spreads are not easily predictable and may cause adverse changes in the fair value of this instrument and a possible loss of income in the future.

**Securities Available for Sale, at Fair Value:**

The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (level 2 inputs).

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The table below contains the fair value measurement at March 31, 2010 using the identified valuations and the changes in fair value for the three month period ended March 31, 2010.

Description	Fair Value Measurements 3/31/2010	Fair Value Measurement at March 31, 2010		Changes in fair value for three months ended March 31, 2010 measured at fair value pursuant to election of the fair value option Other Gains or Losses in noninterest income pretax income
		Significant Observable Inputs (Level 2) (In thousands of dollars)	Significant Unobservable Inputs (Level 3)	
Securities available for sale	\$ 49,162	\$ 49,162	\$	\$
Subordinated Debentures	7,865		7,865	501
				\$ 501

Description	Fair Value Measurements 3/31/2009	Fair Value Measurement at March 31, 2009		Changes in fair value for three months ended March 31, 2009 measured at fair value pursuant to election of the fair value options Other Gains or Losses in noninterest income pretax income
		Significant Observable Inputs (Level 2) (In thousands of dollars)	Significant Unobservable Inputs (Level 3)	
Trading Securities	\$ 1,737	\$ 1,737	\$	\$ (103)
Securities available for sale	69,184	69,184		



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Interest rate swap hedging securities			(75)
Subordinated Debentures	12,022	12,022	735
Interest rate swap hedging subordinated debentures			(325)
		\$	232

Interest income and interest expense of the respective financial instruments have been recorded in the consolidated statement of income based on the category of financial instrument.

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