COMMUNITY CENTRAL BANK CORP
Form 10-Q
May 15, 2009

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

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

For the quarterly period ended March 31, 2009

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 organization)	(IRS Employer Identification No.)

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 þ No o

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

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 14, 2009
Common Stock	3,734,781 Shares

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COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)

PART I

Item 1. Financial Statements
Consolidated Balance Sheet

	March 31, 2009 (Unaudited)	December 31, 2008
	(In thousands)	
Assets		
Cash and due from banks	$ 17,581	$ 9,162
Federal funds sold	2,145	7,000
Cash and Cash Equivalents	19,726	16,162
Trading securities at fair value option	1,737	17,463
Securities available for sale, at fair value	69,184	76,552
Securities held to maturity, at amortized cost	1,851	1,515
FHLB stock	5,877	5,877
Residential mortgage loans held for sale	10,873	3,302
Loans		
Commercial real estate	291,284	284,811
Commercial and industrial	46,818	38,714
Residential real estate	54,016	54,409
Home equity lines of credit	22,262	21,230
Consumer loans	6,537	7,107
Credit card loans	666	846
Total Loans	421,583	407,117
Allowance for credit losses	(8,322)	(7,315)
Net Loans	413,261	399,802
Net property and equipment	9,248	9,361
Accrued interest receivable	2,289	2,479
Other real estate	3,379	2,913
Goodwill	638	638
Intangible assets, net of amortization	74	80
Cash surrender value of Bank Owned Life Insurance	11,047	10,975
Other assets	7,416	9,831
Total Assets	$ 556,600	$ 556,950

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

	March 31, 2009 (Unaudited)	December 31, 2008
	(In thousands)	
Liabilities		
Deposits		
Noninterest bearing demand deposits	$ 47,837	$ 34,169
NOW and money market accounts	36,021	38,154
Savings deposits	8,499	8,585
Time deposits	275,343	276,468
Total Deposits	367,700	357,376
Repurchase agreements	37,300	39,394
Federal Home Loan Bank advances ($5.0 million at fair value option at 12-31-2008)	102,700	108,200
Accrued interest payable	627	1,050
Other liabilities	2,739	3,779
Subordinated debentures at fair value option	12,022	12,757
Total Liabilities	523,088	522,556
Stockholders Equity		
Preferred stock (7,000 shares authorized and 3,550 and 3,050 issued and outstanding at March 31, 2009 and December 31, 2008 respectively)	3,550	3,050
Common stock (No par value; 9,000,000 shares, authorized, and 3,734,781 and 3,734,781 issued and outstanding at March 31, 2009 and December 31, 2008, respectively)	32,145	32,125
Retained earnings	(2,109)	(516)
Accumulated other comprehensive (loss) income	(74)	(265)
Total Stockholders Equity	33,512	34,394
Total Liabilities and Stockholders Equity	$ 556,600	$ 556,950

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COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31, 2009	2008
	(In thousands, except per share data)	
Interest Income		
Loans (including fees)	$ 6,260	$ 6,491
Taxable securities	938	826
Tax exempt securities	114	229
Federal funds sold	6	255
Total Interest Income	7,318	7,801
Interest Expense		
NOW and money market accounts	84	294
Savings deposits	17	50
Time deposits	2,652	3,037
Repurchase agreements and fed funds purchased	317	230
Federal Home Loan Bank advances	1,138	1,226
Subordinated debentures	302	291
Total interest expense	4,510	5,128
Net Interest Income	2,808	2,673
Provision for Credit Losses	2,550	2,100
Net Interest Income after Provision for Credit Losses	258	573
Noninterest Income		
Fiduciary income	83	108
Deposit service charges	95	132
Net realized security (loss) gain	128	61
Change in fair value of assets/liabilities carried at fair value under SFAS 159	232	2,139
Mortgage banking income	471	450
Other income	205	310
Total noninterest income	1,214	3,200
Noninterest Expense		
Salaries, benefits and payroll taxes	1,932	1,832
Net occupancy expense	463	461

Other operating expense		1,479		1,264
Total noninterest expense		3,874		3,557
Income (loss) Before Taxes		(2,402)		216
Provision for Income Tax (Benefit) Expense		(858)		(24)
Net income (loss)	$	(1,544)	$	240
Dividends declared on preferred shares		50		
Net income (loss) available on common shares	$	(1,594)	$	240
Per share data:				
Basic earnings (loss)	$	(0.43)	$	0.06
Diluted earnings (loss)	$	(0.43)	$	0.06
Cash dividends	$		$	0.24

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COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(In thousands)	
Net Income (loss) as Reported	($1,544)	$ 240
Other Comprehensive Income, Net of Tax Change in unrealized net gain on securities available for sale	191	548
Comprehensive Income (loss)	($1,353)	$ 788

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COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Consolidated Statements of Cash Flow
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Operating Activities		
Net income (loss)	($1,544)	$ 240
Adjustments to reconcile net income to net cash flow from operating activities:		
Net amortization of security premium	33	24
Net gain on available for sale securities	(128)	(61)
Net gain on instruments at fair value	(232)	(2,139)
Provision for credit losses	2,550	2,100
Depreciation expense	163	174
Deferred income tax benefit	(769)	(32)
ESOP compensation expense		13
SFAS 123R option expense	20	14
Decrease (increase) in accrued interest receivable	190	(63)
(Increase) decrease in other assets	3,454	(322)
(Decrease) increase in accrued interest payable	(423)	279
Increase (decrease) in other liabilities	(1,040)	550
Loans originated held for sale		
(Increase) decrease in loans sold held for sale	(7,571)	964
Increase in other real estate	(606)	(1,524)
Net Cash (Used in) Provided By Operating Activities	(5,903)	217
Investing Activities		
Sales, maturities, calls and prepayments of securities available for sale	30,931	33,869
Purchases of securities available for sale	(23,397)	(42,163)
Maturities, calls, sales and prepayments of trading securities	17,463	2,455
Transfer and purchase of trading securities	(1,737)	
Maturities, calls, and prepayments of held to maturity securities	27	5
Purchases of held to maturity securities	(336)	(1,115)
Increase in loans	(16,615)	(3,022)
Purchases of property and equipment	(50)	(592)
Proceeds from sale of property and equipment		
Net Cash Used in Investing Activities	6,286	(10,563)
Financing Activities		
Net (decrease) increase in demand and savings deposits	11,449	5,085
Net (decrease) increase in time deposits	(1,125)	14,106
Net (decrease) increase in short term borrowings	(2,094)	(2,753)
FHLB advances		10,000
FHLB advance repayments	(5,500)	

Payment of ESOP debt				(13)
Stock options exercised				
Preferred Stock Issuance		500		
Preferred Stock dividend paid		(49)		
Cash dividends paid				(225)
Repurchase of stock				(7)
Net Cash Provided by Financing Activities		3,181		26,193
Increase (decrease) in Cash and Cash Equivalents		3,564		15,847
Cash and Cash Equivalents at the Beginning of the Period		16,162		9,183
Cash and Cash Equivalents at the End of the Period	$	19,726	$	25,030
Supplemental Disclosure of Cash Flow Information				
Interest paid	$	4,933	$	4,849
Federal Taxes Paid				
Loans transferred to other real estate owned	$	606	$	1,890

COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)
Community Central Bank Corporation

Notes to Consolidated Financial Statements
(unaudited)

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, 2009 and December 31, 2008, and Consolidated Statements of Income and Comprehensive Income for the three month periods ended March 31, 2009 and 2008, and Consolidated Statements of Cash Flow for the three months ended March 31, 2009 and 2008. 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, 2008.

   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.

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.

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.

4. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123R Share-Based Payment (SFAS 123R), a revision to Statement No. 123, Accounting for Stock-Based Compensation. This standard requires the Corporation to measure the cost of employee services received in exchange for equity awards, including stock options, based on the grant date fair calculated value of the awards. The Corporation adopted the provisions of SFAS 123R as of January 1, 2006. The standard provides for a modified prospective application. Under this method, the Corporation began recognizing compensation cost for equity based compensation for all

new or modified grants after the date of adoption. In addition, the Corporation is recognizing the unvested portion of the grant date fair value of awards issued prior to adoption based on the fair value previously calculated for disclosure purposes. Prior periods have not been restated.

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COMMUNITY CENTRAL BANK CORPORATION
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The Corporation did not issue options during the first quarter of 2009 or 2008. The total amount of options outstanding at March 31, 2009 was 303,475 shares at a weighted average exercise price of $7.91 per share. During the first quarter of 2009, no options were exercised. During the first quarter of 2009, the Corporation recognized compensation expense for stock options awarded over the vesting period based on the fair value of the options granted. The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model. The expense recorded for the first quarter of 2009 and 2008 are disclosed for comparison below.

	Three Months Ended March 31,	
	2009	2008
	(In thousands)	
Stock-based employee compensation expense, net of related tax effects, included in reported net income	$20	$14

5. In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The statement permitted an entity to immediately elect the fair value option for existing eligible items. While not required to adopt the new standard until 2008, the Corporation elected to adopt it in the first quarter of 2007. The Corporation was also required to simultaneously adopt all the requirements under SFAS 157, Fair Value Measurements. As a result of the Corporation s adoptions, certain financial instruments were valued at fair value using the fair value option.

   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 SFAS 157, 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.

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COMMUNITY CENTRAL BANK CORPORATION
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Investment Securities:
In the first quarter of 2009, the Corporation elected to sell substantially all of the investment securities recorded under SFAS 159 and to unwind the hedging interest rate swap position with the counterparty which resulted in realizing a combined net loss of $178,000 in the first quarter of 2009, which represented substantially all of the unrealized net losses which had been recorded as noninterest income, under SFAS 159 through December 31, 2008. 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 SFAS 159.
Subordinated Debentures:
Management elected the fair value option for its subordinated debenture. Management considers the subordinated debentures 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 SFAS 159 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 SFAS 159. 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 SFAS 159 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 SFAS 157, Fair Value Measurement, 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 SFAS 159, Fair Value Option. The inputs were observable 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 facilities. 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 pricing 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. 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. A determination was made, based upon the significance of unobservable parameters as of March 31, 2009 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 SFAS 159 totaled $232,000 for the first quarter of 2009, versus $2.1 million for the first quarter of 2008. The decrease was primarily related to smaller gains recorded in fair market value of assets and liabilities as measured under Statement of Financial Accounting Standards (SFAS 159) recorded in the first quarter of 2009 compared to the first quarter of 2008. The increases recorded during both quarterly periods have been largely attributable to the fair value of the subordinated debenture connected with the issuance of trust preferred securities. The dramatic widening of market credit spreads for trust preferred securities experienced in the fourth quarter of 2007 increased the relative fair value of this financial liability dramatically. 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.

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COMMUNITY CENTRAL BANK CORPORATION
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The table below contains the fair value measurement at March 31, 2009 using the identified valuations. Additionally, the changes in fair value for the three months ended March 31, 2009 for items measured at fair value pursuant to election of the fair value option.

Description	Fair Value Measurements 3/31/2009	Fair Value Measurement at March 31, 2009 Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	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
		(In thousands)		
Securities available for sale	$ 69,184	$ 69,184	$	$
Trading Securities (a)	1,737	1,737		(103)
Interest rate swap hedging securities (a)				(75)
Subordinated Debentures	12,022		12,022	735
Interest rate swap hedging subordinated (b) debentures				(325)
				$ 232

(a) In the first quarter of 2009, the Corporation elected to sell substantially all of the investment securities recorded under SFAS 159 and to unwind the interest rate swap position with the counterparty.

(b) In the first quarter of 2009, the Corporation elected to unwind the interest rate swap position with the counterparty.

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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COMMUNITY CENTRAL BANK CORPORATION
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Changes in level 3 recurring fair value measurements

The table below includes a rollforward of the balance sheet amounts for the three months ended March 31, 2009 (including the change in fair value), for financial instruments classified by the Corporation within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Corporation attempts to risk manage the observable components of level 3 financial instruments using derivative positions that are classified within level 2 of the valuation hierarchy; as these level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of the Corporation s risk management activities related to such level 3 instruments.

For the quarter ended March 31, 2009	Fair Value January 1, 2009	Total realized / unrealized gains / losses	Purchases issuances settlements, net	Transfers in and / or out of Level 3	Fair Value March 31, 2009	Changes in unrealized gains and (losses) related to financial instruments held at March 31, 2009
			(In thousands)			
Subordinated Debentures	$12,757	$ 735	$	$	$ 12,022	$ 735

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COMMUNITY CENTRAL BANK CORPORATION
FORM 10-Q (continued)

Assets Measured at Fair Value on a Nonrecurring Basis

Impaired Loans

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using primarily collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. The fair value of the collateral is based on an observable market price, current appraised value and management s estimates of collateral and other market conditions. Due to the lack of market transactions, volatility in pricing and other factors, some of which may be unobservable, the Corporation recorded the impaired loans as nonrecurring Level 3.

Other Real Estate Owned

Other real estate owned assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. The fair value of the collateral is based on an observable market price, a current appraised value, or management s estimates. Due to the lack of transactions, volatility in pricing and other factors, some of which may be unobservable, the Corporation recorded other real estate owned as nonrecurring Level 3.

The following table presents assets measured at fair value on a nonrecurring basis at March 31, 2009.

Assets	Balance at March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses for the three months ended