

Cheviot Financial Corp.
Form 10-Q
August 12, 2013

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

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _____ to _____

Commission File No. 0-50529
CHEVIOT FINANCIAL CORP.
(Exact name of registrant as specified in its
charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

90-0789920
(I.R.S. Employer
Identification Number)

3723 Glenmore Avenue, Cincinnati,
Ohio 45211
(Address of principal executive office)

Registrant's telephone number, including area code: (513) 661-0457

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one.)

Large accelerated filer Accelerated filer Non-accelerated filer Small business
issuer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 12, 2013, the latest practicable date, 6,836,903 shares of the registrant's common stock, \$.01 par value, were issued and outstanding.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012
Cash and due from banks	\$9,472	\$10,251
Federal funds sold	15,832	12,555
Interest-earning deposits in other financial institutions	3,352	2,308
Cash and cash equivalents	28,656	25,114
Investment securities available for sale – at fair value	164,450	195,963
Mortgage-backed securities available for sale - at fair value	5,278	6,029
Mortgage-backed securities held to maturity - at cost, approximate market value of \$3,503 and \$3,772 at June 30, 2013 and December 31, 2012, respectively	3,363	3,581
Loans receivable - net	333,133	337,110
Loans held for sale - at lower of cost or market	850	3,304
Real estate acquired through foreclosure - net	4,915	3,980
Office premises and equipment - at depreciated cost	11,793	12,481
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,238	1,303
Accrued interest receivable on mortgage-backed securities	18	20
Accrued interest receivable on investments and interest-earning deposits	717	941
Goodwill	10,309	10,309
Core deposit intangible	634	746
Prepaid expenses and other assets	3,771	4,596
Bank-owned life insurance	15,491	15,249
Prepaid federal income taxes	1,285	1,192
Deferred federal income taxes	3,742	1,413
Total assets	\$598,294	\$631,982
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$477,381	\$490,646
Advances from the Federal Home Loan Bank	21,197	24,314
Advances by borrowers for taxes and insurance	952	2,331
Accrued interest payable	88	90
Accounts payable and other liabilities	4,972	6,701
Total liabilities	504,590	524,082
Shareholders' equity		

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Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued		
Common stock - authorized 30,000,000 shares, \$.01 par value; 6,836,903 and 7,596,557 shares issued at June 30, 2013 and December 31, 2012	76	76
Additional paid-in capital	57,226	65,772
Shares acquired by stock benefit plans	(1,955)	(1,992)
Retained earnings - restricted	43,218	43,444
Accumulated comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net of related tax expense (benefit)	(4,861)	600
Total shareholders' equity	93,704	107,900
Total liabilities and shareholders' equity	\$ 598,294	\$ 631,982

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share data)

	Six months ended		Three months ended	
	June 30,	2012	June 30,	2012
	2013		2013	
Interest income				
Loans	\$8,018	\$9,419	\$3,944	\$4,587
Mortgage-backed securities	82	110	41	50
Investment securities	1,645	1,313	777	744
Interest-earning deposits and other	196	187	98	91
Total interest income	9,941	11,029	4,860	5,472
Interest expense				
Deposits	1,887	2,478	920	1,207
Borrowings	377	489	183	236
Total interest expense	2,264	2,967	1,103	1,443
Net interest income	7,677	8,062	3,757	4,029
Provision for losses on loans	340	400	285	250
Net interest income after provision for losses on loans	7,337	7,662	3,472	3,779
Other income				
Rental	73	71	31	35
Gain on sale of real estate acquired through foreclosure	69	39	71	10
Loss on sale of office premises and equipment	(255)	-	(255)	-
Gain on sale of loans	425	552	187	175
Earnings on bank-owned life insurance	241	156	122	76
Gain on death benefits from life insurance	-	481	-	481
Service fee income	736	795	376	396
Other operating	200	60	10	6
Total other income	1,489	2,154	542	1,179
General, administrative and other expense				
Employee compensation and benefits	3,323	3,154	1,640	1,496
Occupancy and equipment	832	853	428	426
Property, payroll and other taxes	727	642	359	347
Data processing	298	311	150	154
Legal and professional	492	394	277	226
Advertising	150	150	75	75
FDIC expense	219	228	111	114

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ATM processing expense	185	182	95	93
Real estate owned impairment	256	168	155	116
Core deposit intangible amortization	112	153	47	98
Other operating	789	794	359	298
Total general, administrative and other expense	7,383	7,029	3,696	3,443
Earnings before income taxes	1,443	2,787	318	1,515
Federal income taxes (benefit)				
Current	(97	) 258	(97	) 17
Deferred	484	439	150	290
Total federal income taxes	387	697	53	307
NET EARNINGS	\$1,056	\$2,090	\$265	\$1,208
EARNINGS PER SHARE				
Basic	\$.15	\$.28	\$.04	\$.16
Diluted	\$.15	\$.28	\$.04	\$.16
Dividends per common share	\$.18	\$.16	\$.09	\$.08

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

For the six and three months ended June 30, 2013 and 2012

(In thousands)

	For the six months ended June 30,		For the three months ended June 30,	
	2013	2012	2013	2012
Net earnings for the period	\$1,056	\$2,090	\$265	\$1,208
Other comprehensive income, net of tax expense: Unrealized holding (losses) gains on securities during the period, net of tax (benefits) expense of \$(2,813) and \$133 for the six months ended June 30, 2013 and 2012, respectively, and \$(2,660) and \$430 for the three months ended June 30, 2013 and 2012, respectively	(5,461	) 259	(5,164	) 835
Comprehensive (loss) income	\$ (4,405	) \$2,349	\$ (4,899	) \$2,043
Accumulated comprehensive (loss) income	\$ (4,861	) \$537	\$ (4,861	) \$537

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings for the period	\$1,056	\$2,090
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	(19)	(20)
Depreciation	370	375
Charitable donation of real estate owned property	32	-
Amortization of deferred loan origination costs - net	(13)	11
Amortization of intangible assets	112	153
Amortization of fair value adjustments	(482)	(489)
Proceeds from sale of loans in the secondary market	27,816	29,649
Loans originated for sale in the secondary market	(23,899)	(30,928)
Gain on sale of loans	(425)	(552)
Gain on sale of real estate acquired through foreclosure	(69)	(39)
Impairment on real estate acquired through foreclosure	256	170
Loss on sale of office premises and equipment	255	-
Net increase in cash surrender value of bank-owned life insurance	(242)	(156)
Amortization of expense related to stock benefit plans	39	4
Provision for losses on loans	340	400
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	65	171
Accrued interest receivable on mortgage-backed securities	2	4
Accrued interest receivable on investments and interest earning deposits	224	(170)
Prepaid expenses and other assets	825	82
Accrued interest payable	(2)	(18)
Accounts payable and other liabilities	(1,770)	(1,339)
Federal income taxes		
Current	(93)	188
Deferred	484	439
Net cash provided by operating activities	4,862	25
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	38,641	46,458
Loan disbursements	(37,872)	(20,930)
Purchase of investment securities – available for sale	(80,928)	(137,134)
Proceeds from maturity of investment securities – available for sale	106,175	86,064
Purchase of corporate securities	(1,920)	-
Principal repayments on mortgage-backed securities – available for sale	682	743
Principal repayments on mortgage-backed securities – held to maturity	218	281

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Proceeds from sale of real estate acquired through foreclosure	878	1,406
Proceeds from sale of office premises and equipment	1,167	-
Purchase of office premises and equipment	(1,104)	(908)
Purchase of Federal Home Loan Bank stock	-	(285)
Proceeds from bank-owned life insurance	-	403
Net cash provided by (used in) investing activities	25,937	(23,902)
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	(12,974)	3,795
Repayments on Federal Home Loan Bank advances	(3,074)	(4,426)
Advances by borrowers for taxes and insurance	(1,379)	(1,494)
Proceeds from stock conversion	-	22,133
Shares acquired by stock benefit plans	-	(1,496)
Stock option expense, net	12	11
Common stock repurchased	(8,560)	-
Dividends paid on common stock	(1,282)	(1,215)
Net cash provided by (used in) financing activities	(27,257)	17,308
Net increase (decrease) in cash and cash equivalents	3,542	(6,569)
Cash and cash equivalents at beginning of period	25,114	45,140
Cash and cash equivalents at end of period	\$28,656	\$38,571

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the six months ended June 30, 2013 and 2012

(In thousands)

	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$-	\$52
Interest on deposits and borrowings	\$2,266	\$2,985
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	\$2,040	\$1,401
Recognition of mortgage servicing rights	\$204	\$224
Deferred gain on real estate acquired through foreclosure	\$7	\$13

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2013 and 2012

1. Basis of Presentation

Cheviot Financial Corp. (“Cheviot Financial” or the “Corporation”) is a financial holding company, the principal asset of which consists of its ownership of Cheviot Savings Bank (the “Savings Bank”). The Savings Bank conducts a general banking business in southwestern Ohio which consists of attracting deposits and applying those funds primarily to the origination of real estate loans. The Savings Bank’s profitability is significantly dependent on net interest income, which is the difference between interest income from interest-earning assets and the interest expense paid on interest-bearing liabilities. Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances.

On January 18, 2012, Cheviot Financial completed a second step reorganization and sale of common stock. Prior to the completion of the second step conversion, Cheviot Financial was a federal corporation and mid-tier holding company. Following the reorganization Cheviot Financial is the Maryland chartered holding company of the Savings Bank.

The accompanying unaudited consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Cheviot Financial included in the Annual Report on Form 10-K for the year ended December 31, 2012. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the six month period ended June 30, 2013 are not necessarily indicative of the results which may be expected for the entire year.

Cheviot Financial evaluates subsequent events through the date of filing with the Securities and Exchange Commission.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the six months ended June 30, 2013 and 2012 include the accounts of the Corporation and its wholly-owned subsidiary, the Savings Bank. All significant intercompany items have been eliminated.

3. Liquidity and Capital Resources

Liquidity describes the ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of customers and to fund current and planned expenditures. The Corporation’s primary sources of funds are deposits, scheduled amortization and prepayments of loan principal and mortgage-backed securities, maturities and calls of securities and funds provided by operations. In addition, the Corporation may borrow from the Federal Home Loan Bank of Cincinnati. At June 30,

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2013 and December 31, 2012, the Corporation had \$21.2 million and \$24.3 million, respectively, in outstanding borrowings from the Federal Home Loan Bank of Cincinnati and had the capacity to increase such borrowings at those dates by approximately \$118.1 million and \$136.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June, 2013 and 2012

3. Liquidity and Capital Resources (continued)

Loan repayments and maturing securities are a relatively predictable source of funds. However, deposit flows, calls of securities and prepayments of loans and mortgage-backed securities are strongly influenced by interest rates, general and local economic conditions and competition in the marketplace. These factors reduce the predictability of these sources of funds.

The Corporation's primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the six months ended June 30, 2013, loan originations totaled \$61.8 million, compared to \$51.9 million for the six months ended June 30, 2012.

Total deposits decreased \$13.3 million during the six months ended June 30, 2013, while total deposits increased \$3.4 million during the six months ended June 30, 2012. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

The following table sets forth information regarding the Corporation's obligations and commitments to make future payments under contracts as of June 30, 2013.

	Less than 1 year (In thousands)	Payments due by period More than 1-3 years	More than 4-5 years	More than 5 years	Total
Contractual obligations:					
Advances from the Federal Home Loan Bank	\$699	\$3,313	\$11,709	\$5,476	\$21,197
Certificates of deposit	117,333	88,004	37,801	-	243,138
Lease obligations	173	348	115	234	870
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	4,141	-	-	-	4,141
Home equity lines of credit	27,912	-	-	-	27,912
Commercial lines of credit	1,180	-	-	-	1,180
Undisbursed loans in process	3,201	-	-	-	3,201
Total contractual obligations	\$154,639	\$91,665	\$49,625	\$5,710	\$301,639

Cheviot Financial is committed to maintaining a strong liquidity position and management monitors the Corporation's liquidity position on a daily basis. The Corporation anticipates that it will have sufficient funds to meet current funding commitments. Based on deposit retention experience and current pricing strategy, its anticipated that a significant portion of maturing time deposits will be retained.

At June 30, 2013 and 2012, we exceeded all of the applicable regulatory capital requirements. Core (Tier 1) capital was \$77.8 million and \$77.6 million, or 13.3% and 12.4% of total assets at June 30, 2013 and 2012, respectively. In order to be classified as "well-capitalized" under federal banking regulations, the Corporation was required to have core capital of at least \$35.7 million, or 6.0% of assets as of June 30, 2013. To be classified as a well-capitalized bank, the Corporation must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At June 30, 2013 and 2012, the Corporation had a total risk-based capital ratio of 25.7% and 25.5%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2013 and 2012

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period, less shares in the ESOP that are unallocated and not committed to be released plus shares in the ESOP that have been allocated. Weighted-average common shares deemed outstanding gives effect to 208,251 and 248,206 unallocated shares held by the ESOP for the six months ended June 30, 2013 and 2012, respectively.

For the six months ended