CHEVIOT FINANCIAL CORP
Form 10-K
March 25, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2007

OR

o 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. 000-33405

Cheviot Financial Corp.

(Exact name of registrant as specified in its charter)

Federal	**56-2423720**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3723 Glenmore Avenue, Cheviot, Ohio	**45211**
(Address of Principal Executive Offices)	Zip Code

(513) 661-0457

(Registrant s telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:	**Common Stock, par value $.01 per share**	**The Nasdaq Stock Market, LLC**
	(Title of Class)	(Name of Each Exchange on which Registered)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES o NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES o NO x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer o Accelerated filer o

Non-accelerated filer o Smaller reporting company x
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on June 30, 2007, as reported by the Nasdaq Capital Market, was approximately $38.7 million.

As of March 1, 2008, there was issued and outstanding 8,925,058 shares of the Registrant s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

(1) Proxy Statement for the 2008 Annual Meeting of Stockholders of the Registrant (Part III).
(2) Annual Report to Stockholder (Part II and IV).

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PART I

ITEM 1. BUSINESS

Forward Looking Statements

This Annual Report contains certain forward-looking statements which may be identified by the use of words such as believe, expect, anticipate, should, planned, estimated and potential. Examples of forward-looking statements include, but are not limited to, estimates 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 and most other statements that are not historical in nature. These factors include, but are not limited to, general and local economic conditions, changes in interest rates, deposit flows, demand for mortgage, commercial and other loans, real estate values, competition, changes in accounting principles, policies, or guidelines, changes in legislation or regulation, and other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing products and services.

General

Cheviot Financial Corp.

Following completion of our mutual holding company reorganization and stock offering on January 5, 2004, Cheviot Financial Corp. (the Company) became the mid-tier stock holding company for Cheviot Savings Bank. The business of Cheviot Financial Corp. consists of holding all of the outstanding common stock of Cheviot Savings Bank. Cheviot Financial Corp. is chartered under Federal law. As part of our reorganization, we issued a total of 9,918,751 shares of common stock. Our mutual holding company parent, Cheviot Mutual Holding Company, received 5,455,313 of our common shares, and we sold 4,388,438 shares to our depositors and a newly formed Employee Stock Ownership Plan. In addition, 75,000 shares were issued to a charitable foundation formed by Cheviot Savings Bank. Under federal regulations, so long as Cheviot Mutual Holding Company exists, it will own at least 50.1% of the voting stock of Cheviot Financial Corp. At December 31, 2007, Cheviot Financial Corp. had total consolidated assets of $319.1 million, total deposits of $219.5 million, and stockholders equity of $67.9 million. Our executive offices are located at 3723 Glenmore Avenue, Cheviot, Ohio 45211, and our telephone number is (513) 661-0457.

Cheviot Savings Bank

Cheviot Savings Bank (the Bank) was established in 1911 as an Ohio-chartered savings and loan association. Following our reorganization we became an Ohio-chartered stock savings and loan. Our primary business activity is the origination of one- to four-family real estate loans. To a lesser extent, we originate construction, multi-family, commercial real estate and consumer loans. We also invest in securities, primarily United States Government Agency securities and mortgage-backed securities.

Market Area

We conduct our operations from our executive office in Cheviot, Ohio and six full-service branches, all of which are located in the western section of Hamilton County, Ohio. Cheviot, Ohio is located in Hamilton County and is 10 miles west of downtown Cincinnati. Hamilton County, Ohio represents our primary geographic market area for loans and deposits with our remaining business operations conducted in the larger Cincinnati metropolitan area which includes Warren, Butler and Clermont Counties. We also conduct a moderate level of business in the southeastern Indiana region, primarily in Dearborn, Ripley, Franklin and Ohio Counties. We will also originate loans secured by properties in Northern Kentucky. The local economy is diversified into most economic sectors, with services, trade and manufacturing employment remaining the most prominent employment sectors in Hamilton County. Hamilton County is a primarily developed and urban county. The employment base is well diversified and there is no dependence on one area of the economy for continued employment. Our future growth opportunities will be influenced by the growth and stability of the regional, state and national economies, other demographic trends and the competitive environment.

Hamilton County and Cincinnati have experienced a declining population since the 1990 census while the other counties in which we conduct business have experienced an increasing population. The population decline in both Hamilton County and the City of Cincinnati results from the other counties and Northern Kentucky being more successful in attracting new and existing businesses to locate within their areas through economic incentives, including less expensive real estate options for office facilities. Individuals are moving to these other areas to be closer to their place of employment, for newer, less expensive housing and more suburban neighborhoods. Median household and per capita income measures for Hamilton County are above comparable measures for both the United States and Ohio, which we believe indicates the relatively stable and diversified economy in the regional market served by Cheviot Savings Bank. Recent employment trends indicate lower levels of unemployment in Hamilton County compared to national and state-wide unemployment rates.

We believe that we have developed products and services that will meet the financial needs of our current and future customer base; however, we plan, and believe it is necessary, to expand the range of products and services that we offer to be more competitive in-our market area. Marketing strategies focus on the strength of our knowledge of local consumer and small business markets, as well as expanding relationships with current customers and reaching out to develop new, profitable business relationships.

Competition.

We face intense competition within our market both in making loans and attracting deposits. Hamilton County has a high concentration of financial institutions including large money center and regional banks, community banks and credit unions. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms, consumer finance companies and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our position as a community bank.

Lending Activities.

General. Historically, our principal lending activity has been the origination, for retention in our portfolio, of fixed-rate and adjustable-rate mortgage loans collateralized by one- to four-family residential real estate located within our primary market area. We will sell a portion of our fixed-rate loans into the secondary market. We also originate commercial real estate loans, including multi-family residential real estate loans, construction loans, business lines of credit and consumer loans.

Loan Portfolio Composition. Set forth below is selected information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
One- to four-family residential(1)	$ 216,958	84.39%	$ 209,996	84.06%	$ 195,059	84.97%	$ 182,016	86.86%	$ 166,998	86.11%
Multi-family residential	10,638	4.14	11,250	4.50	11,144	4.86	9,944	4.75	7,714	3.98
Construction	19,421	7.55	19,022	7.61	12,360	5.38	10,718	5.11	13,770	7.10
Commercial(2)	10,018	3.90	9,466	3.80	10,883	4.74	6,750	3.22	5,278	2.72
Consumer(3)	66	0.02	82	0.03	110	0.05	133	0.06	169	0.09
Total loans	257,101	100.00%	249,816	100.00%	229,556	100.00%	209,561	100.00%	193,929	100.00%
Less:										
Undisbursed portion of loans in process	6,585		7,646		5,849		4,754		6,038	
Deferred loan origination fees	88		159		188		233		270	
Allowance for loan losses	596		833		808		732		768	
Total loans, net	$ 249,832		$ 241,178		$ 222,711		$ 203,842		$ 186,853	

(1) Includes home equity lines of credit, loans purchased and loans held for sale.

(2) Includes land loans.

(3) Loans secured by deposit accounts.

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2007, regarding the amount of loans maturing in our portfolio. Demand loans and loans with no stated maturity, are reported as due within one year.

	At December 31, 2007						
	Within One Year	One Through Three Years	Three Through Five Years	Five Through Ten Years	Ten Through Twenty Years	Beyond Twenty Years	Total
	(In thousands)						
Real estate loans:							
One- to four-family real estate	$ 5,055	$ 11,050	$ 12,436	$ 38,335	$ 120,654	$ 29,428	$ 216,958
Multi-family residential	173	385	446	1,447	5,091	3,096	10,638
Construction	382	854	986	3,197	11,208	2,794	19,421
Commercial	112	251	290	942	5,110	3,313	10,018
Consumer	66						66
Total loans	$ 5,788	$ 12,540	$ 14,158	$ 43,921	$ 142,063	$ 38,631	$ 257,101

Fixed and Adjustable-Rate Loan Schedule. The following table sets forth at December 31, 2007, the dollar amount of all fixed-rate and adjustable-rate mortgage loans and home equity lines of credit due after December 31, 2008.

	Due After December 31, 2008		
	Fixed	Floating or Adjustable	Total
Real estate loans:			
One- to four-family real estate	$ 173,760	$ 38,143	$ 211,903
Multi-family residential	8,581	1,884	10,465
Construction	19,039		19,039
Commercial	8,123	1,783	9,906
Consumer			
Total loans	$ 209,503	$ 41,810	$ 251,313

Residential Mortgage Loans. Cheviot Savings Bank originates mortgage loans secured by one- to four-family properties, most of which serve as the primary residence of the owner. As of December 31, 2007, one- to four-family residential mortgage loans totaled $217.0 million, or 84.4% of our total loan portfolio. At December 31, 2007, our one- to four-family residential loan portfolio consisted of 18% in adjustable-rate loans and 82% in fixed-rate loans. Most of our loan originations result from relationships with existing or past customers, members of our local community and referrals from realtors, attorneys and builders.

Our mortgage loans generally, have terms from 15 to 30 years and amortize on a monthly basis with principal and interest due each month. As of December 31, 2007, we offered the following residential mortgage loan products:

Fixed-rate loans of various terms;

Adjustable-rate loans;

Home equity lines of credit;

Loans tailored for first time home buyers;

Construction/permanent loans; and

Short-term (bridge) loans.

Residential real estate loans may remain outstanding for significantly shorter periods than their contractual terms as borrowers refinance or prepay loans at their option without penalty. Our residential mortgage loans customarily contain due on sale clauses which permit us to accelerate the indebtedness of the loan upon transfer of ownership in the mortgage property.

We currently sell a portion of our conforming fixed-rate loans in the secondary market and hold the remaining fixed-rate loans and adjustable-rate loans in our portfolio. We lend up to a maximum loan-to-value ratio of 100% on mortgage loans secured by owner-occupied properties, with the condition that private mortgage insurance is required on first mortgage loans with a loan-to-value ratio in excess of 85%. To a lesser extent, we originate non-conforming loans that are tailored to the needs of the local community.

Our adjustable-rate mortgage loans are originated with a maximum term of 30 years. Adjustable-rate loans include loans that provide for an interest rate based on the interest paid on U.S. Treasury Securities of corresponding terms, plus a margin. Our adjustable-rate mortgages include limits on the increase or decrease in the interest rate. The interest rate may increase or decrease by a maximum of 2.0% per adjustment with a ceiling rate over the life of the loan, which generally is 5.0%. We currently offer adjustable-rate loans with initial rates below those which would prevail under the foregoing computations based upon our determination of market factors and competitive rates for adjustable-rate loans in our market. For one-year adjustable-rate loans, borrowers are qualified at the initial rate and at 2.0% over the initial rate. For all other adjustable-rate loans, borrowers are qualified at the initial rate.

The retention of adjustable-rate loans in our portfolio helps reduce exposure to changes in interest rates. However, there are credit risks resulting from potential increased costs to the borrower as a result of rising interest rates. During periods of rising interest rates, the risk of default on adjustable-rate mortgages may increase due to the upward adjustment of interest cost to the borrower.

During the year ended December 31, 2007, we originated $4.6 million in adjustable-rate loans and $43.1 million in fixed-rate loans.

Home equity lines of credit are generally made for owner-occupied homes and are secured by first or second mortgages on residential properties. We are attempting to increase our originations of home equity lines of credit. We generally offer home equity lines of credit with a maximum loan to appraised value ratio of 95% including senior liens on the subject property. We currently offer these loans for terms of up to 10 years, and with adjustable rates that are tied to the prime rate. At December 31, 2007, home equity lines of credit represented $9.8 million of our one- to four-family residential loans.

Construction Loans. Cheviot Savings Bank originates construction loans for owner-occupied residential real estate, and, to a lesser extent, for commercial builders of residential real estate, improvement to existing structures, new construction for commercial purposes and residential land development.

At December 31, 2007, construction loans represented $19.4 million, or 7.6%, of Cheviot Savings Bank s total loans. At December 31, 2007, the unadvanced portion of these constructions loans totaled $6.6 million.

Cheviot Savings Bank s construction loans generally provide for the payment of interest only during the construction phase (12 months for single family residential and varying terms for commercial property and land development). At the end of the construction phase, the loan converts to a permanent mortgage loan. Before making a commitment to fund a construction loan, Cheviot Savings Bank requires detailed cost estimates to complete the project and an appraisal of the property by an independent licensed appraiser. Cheviot Savings Bank also reviews and inspects each property before disbursement of funds during the term of the construction loan. Loan proceeds are disbursed after inspection based on the percentage of completion method.

Construction lending generally involves a greater degree of risk than other one- to four-family mortgage lending. The repayment of the construction loan is, to a great degree, dependent upon the successful and timely completion of construction. Various potential factors including construction delays or the financial viability of the builder may further impair the borrower s ability to repay the loan.

Multi-Family Loans. At December 31, 2007, $10.6 million, or 4.1%, of our total loan portfolio consisted of loans secured by multi-family real estate. We originate fixed-rate and adjustable rate multi-family real estate loans with amortization schedules of up to 25 years. We generally lend up to 80% of the property s appraised value. Appraised values are determined by an outside independent appraiser that we designate. In deciding to originate a multi-family loan, we review the creditworthiness of the borrower, the expected cash flows from the property securing the loan, the cash flow requirements of the borrower, the value of the property and the quality of the management involved with the property. We generally obtain the personal guarantee of the principals when originating multi-family real estate loans.

Multi-family real estate lending is generally considered to involve a higher degree of credit risk than one-to four-family residential lending. Such lending may involve large loan balances concentrated on a single borrower or group of related borrowers. In addition, the payment experience on loans secured by income producing properties typically depends on the successful operation of the related real estate project. Consequently, the repayment of the loan may be subject to adverse conditions in the real estate market or the economy generally.

Commercial Real Estate Loans. We originate commercial real estate loans to finance the purchase of real property, which generally consists of land and/or developed real estate. In underwriting commercial real estate loans, consideration is given to the property s historic and projected cash flow, current and projected occupancy, location, physical condition and credit worthiness of the borrower. At December 31, 2007, our commercial real estate portfolio totaled $10.0 million, or 3.9%, of total loans. A majority of our commercial real estate loans are secured by properties in Hamilton County. Our commercial real estate portfolio is diverse as to borrower and property type.

Commercial real estate lending involves additional risks compared to one- to four-family residential lending because payments on loans secured by commercial real estate properties are often dependent on the successful operation or management of the properties, and/or the collateral value of the commercial real estate securing the loan. Repayment of such loans may be subject, to a greater extent than residential loans, to adverse conditions in the real estate market or the economy. Also, commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Our policies limit the amount of loans to a single borrower or group of related borrowers to reduce this risk.

Commercial real estate loans generally have a higher rate of interest and shorter term than residential mortgage loans because of increased risks associated with commercial real estate lending. Commercial real estate loans are generally offered at one year adjustable-rates and fixed-rates with a term generally not exceeding 25 years.

Consumer Loans. On a limited basis, we make loans secured by deposit accounts up to 90% of the amount of the depositor s collected deposit account balance. At December 31, 2007, these loans totaled $66,000, or 0.02%, of total loans. Consumer loans are payable upon demand.

Loan Originations, Purchases, Sales and Servicing. While we originate both fixed-rate and adjustable-rate loans, our ability to generate each type of loan depends upon relative borrower demand and the pricing levels as set in the local marketplace by competing banks, thrifts, credit unions, and mortgage banking companies. Our volume of real estate loan originations is influenced significantly by market interest rates, and, accordingly, the volume of our real estate loan originations can vary from period to period. Our volume of commercial real estate lending has decreased in recent years due to our effort to improve asset quality and to emphasize relationship banking.

The following table sets forth the loan origination, sales and repayment activities of Cheviot Savings Bank for the periods indicated.

	For the Year Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,	For the Nine Months Ended December 31,	For the Year Ended March 31,
	2007	2006	2005	2004	2003	2003
	(In thousands)					
Balance outstanding at beginning or period	$ 241,178	$ 222,711	$ 203,842	$ 186,853	$ 182,444	$ 166,550
Originations, including purchased loans						
Real estate loans:						
One- to four-family residential(1)	36,136	46,924	53,174	47,736	42,667	54,106
Multi-family residential	200	2,791	2,974	2,406	998	3,936
Construction	9,259	8,406	7,023	8,886	9,023	11,784
Commercial(2)	2,018	1,472	1,310	1,541	926	2,922
Consumer(3)	92	448	111	39	30	192
Total loan originations	47,705	60,041	64,592	60,608	53,644	72,940
Less:						
Principal repayments	34,565	39,175	43,884	40,605	46,669	56,260
Transfers to real estate acquired through foreclosure	773		201	293	46	157
Loans sold in the secondary market(4)	3,670	2,440	1,595	2,827	2,598	481
Other(5)	43	(41)	43	(106)	(78)	148
Total deductions	39,051	41,574	45,723	43,619	49,235	57,046
Balance outstanding at end of period	$ 249,832	$ 241,178	$ 222,711	$ 203,842	$ 186,853	$ 182,444

(1) Includes home equity lines of credit, loans purchased and loans held for sale.

(2) Includes land loans.

(3) Loans secured by deposit accounts.

(4) Loans sold to the Federal Home Loan Bank of Cincinnati.

(5) Other items consist of loans in process, deferred loan origination fees, unearned interest and the allowance for loan losses.

Loan Approval Procedures and Authority. The lending activities of Cheviot Savings Bank are subject to the written underwriting standards and loan origination procedures established by the board of directors and management. Loan originations are obtained through a variety of sources, primarily consisting of existing customers and referrals from real estate brokers. Written loan applications are taken by one of Cheviot Savings Bank s loan officers. The loan officer also supervises the procurement of reports, appraisals and other documentation involved with a loan. Cheviot Savings Bank obtains property appraisals from independent appraisers on substantially all of its loans.

Cheviot Savings Bank s loan approval process is intended to provide direction to management on all phases of real estate lending activity since such real estate mortgage lending is the single most important revenue producing investment of Cheviot Savings Bank. Therefore, Cheviot Savings Bank believes that the underwriting of mortgage loans should be consistent with safe and sound practices to ensure the financial viability of the Bank. The loan underwriting policy is also established to provide appropriate limits and standards for all extensions of credit in real estate or for the purpose of financing the construction of a building or other improvement. Cheviot Savings Bank s loan committee has the authority to approve or deny loan applications on one- to four-family owner occupied properties up to $500,000. This committee also has the authority for approving or denying loan applications on non-owner occupied properties up to $200,000. The loan committee reviews all loan applications submitted to Cheviot Savings Bank and lists such applications on a review sheet that is submitted to the board of directors. The board of directors ratifies all loans approved by the loan committee and approves all other loans other than those specifically set forth above.

Loans to One Borrower. State savings and loan institutions are subject to the same loans to one borrower limits as those applicable to national banks, which under current regulations restrict loans to one borrower to an amount equal to 15% of unimpaired equity on an unsecured basis, and an additional amount equal to 10% of unimpaired equity if the loan is secured by readily marketable collateral (generally, financial instruments and bullion, but not real estate). Our loans to one borrower limit under this regulation at December 31, 2007 was $8.0 million. Our policy generally provides that loans to one borrower (or related borrowers) should not exceed $4.0 million (excluding the borrower s principal residence). However, the board of directors may approve loans in greater amounts and may amend this limitation annually based on the asset growth and capital position of Cheviot Savings Bank.

At December 31, 2007, the largest aggregate credit exposure to one borrower consisted of one loan totaling $5.4 million. This loan was performing in accordance with contractual terms. There were thirteen additional credit relationships, including committed amounts, in excess of $1.0 million at December 31, 2007. All of the loans extended under these credit relationships were performing as of December 31, 2007.

Asset Quality.

General. One of our key operating objectives has been, and continues to be, to maintain a high asset quality. Our high proportion of one- to four-family mortgage loans, our maintenance of sound credit standards for new loan originations and our loan administration procedures have resulted in our impaired and non-performing loans totaling to $660,000, or 0.26% of net loans at December 31, 2007.

Collection Procedures. When a borrower fails to make required payments on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to a current status. Cheviot Savings Bank has implemented certain loan tracking policies and collection procedures to ensure effective management of classified assets. Cheviot Savings Bank generally sends a written notice of non-payment to its borrower after a loan is first past due. If payment has not been received within a reasonable time period, personal contact efforts are attempted by telephone or by letter. If no payment is received the following month, a letter stating that the borrower is two months behind is mailed indicating that the borrower needs to contact our collections department, and make payment arrangements. If the borrower has missed two consecutive payments, a demand letter will be sent by certified mail. On all accounts that are not current ten days after the completion of the last step set forth above our collection manager or staff member contacts the borrower by phone at their home and if necessary, at their place of employment in order to establish communications with the borrower concerning the delinquency and to try to establish a meeting with the borrower to determine what steps are needed to bring the borrower to a current status. If contact with the borrower by telephone is unsuccessful and the loan becomes 60 days delinquent Cheviot Savings Bank sends a letter stating its intention to begin foreclosure procedures. If no satisfactory agreement has been reached with the borrower within 15 days after the foreclosure intention letter, the Board of Directors will consider the status of the delinquency and may authorize Cheviot Savings Bank s attorney to send a letter to the borrower advising the borrower that foreclosure proceedings will be initiated and setting forth the conditions which could forestall the foreclosure. In selected cases, Cheviot Savings Bank may make an economic decision to forego foreclosure and work with the borrower to bring the loan current. Repayment schedules may be entered into with chronically delinquent borrowers if management determines this resolution is more advantageous to Cheviot Savings Bank.

In connection with home equity lines of credit, when payment is first past due the collection manager or staff member attempts to contact the borrower by phone at their home. If phone contact is unsuccessful, the collection manager or staff member will mail a late notice to the borrower at the beginning of the following month indicating the need to contact the collections personnel and bring the loan current. If the preceding steps are unsuccessful then the collection manager will implement the steps described above leading to foreclosure.

Cheviot Savings Bank has implemented several credit risk measures in the loan origination process that have served to reduce potential losses. Cheviot Savings Bank also seeks to limit loan portfolio credit risk by originating in the local market generally one- to four-family permanent mortgage loans with a loan-to-value of 85% or less, and one and two family owner-occupied residential mortgage loans with a loan-to-value of 85%, with private mortgage insurance, required on first mortgage loans with loan-to-value of greater than 85%. Cheviot Savings Bank has implemented conservative loan underwriting guidelines and makes exceptions in originating such loans only if there are sound reasons for such exceptions.

Credit risk on commercial real estate loans is managed by generally limiting such lending to local markets and emphasizing sound underwriting and monitoring the financial status of the borrower. In originating such loans Cheviot Savings Bank seeks debt service coverage ratios in excess of 1.00x.

To limit the impact of loan losses in any given quarter, Cheviot Savings Bank seeks to maintain an adequate level of valuation allowances. Its management and board of director s review the level of general valuation allowances on a quarterly basis to ensure that adequate coverage against known and inherent losses is maintained, based on the level of non-performing and classified assets, our loss history and industry trends and economic trends.

Cheviot Savings Bank has established detailed asset review policies and procedures which are consistent with generally accepted accounting principles. Quarterly reviews of the valuation allowance are conducted by the board of directors. Pursuant to these procedures, when needed, additional valuation allowances are established to cover anticipated losses in the portfolio.

We hold foreclosed property as real estate acquired through foreclosure. We carry foreclosed real estate at lower of cost or fair value less estimated selling costs. If a foreclosure action is commenced and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, we either sell the real property securing the loan at the foreclosure sale or sell the property as soon thereafter as practical.

Marketing real estate owned generally involves listing the property for sale. Cheviot Savings Bank maintains the real estate acquired through foreclosure in good condition to enhance its marketability. As of December 31, 2007, there were eleven loans classified as real estate owned totaling $625,000.

Delinquent Loans and Non-performing Loans and Assets. Our policies require that the collection manager monitor the status of the loan portfolios and report to the Board on a monthly basis. These reports include information on delinquent loans, criticized and classified assets, foreclosed real estate and our plans to cure the delinquent status of the loans.

It is Cheviot Savings Bank s policy to underwrite single-family residential loans up to an 95% loan-to-value ratio and all other loans (multi-family, construction, commercial and consumer) on no more than an 80% loan-to-value ratio. It has been the Bank s experience that interest on delinquent loans is generally recovered in ultimate settlement of the loan due to this conservative underwriting policy. We generally stop accruing interest on our one-to four-family residential, construction and commercial loans when interest or principal payments are 150 days in arrears. Consumer loans are comprised exclusively of loans secured by deposits with Cheviot Savings Bank. Such loans are placed on non-accrual status should they become 90 days delinquent. The Bank will stop accruing interest earlier when the timely collectibility of such interest or principal is doubtful.

We designate loans on which we stop accruing interest as non-accrual loans and we reverse outstanding interest that we previously credited. We may recognize income in the period that we collect it, when the ultimate collectibility of principal is no longer in doubt. We return a non-accrual loan to accrual status when factors indicating doubtful collection no longer exist and the loan has been brought current. In accordance with industry standards and regulatory requirements, it is Cheviot Savings Bank s policy to charge-off a loan when it becomes apparent that recovery of amounts due is not probable, either from expected payments from the borrower or from settlement of the collateral.

The following table sets forth certain information regarding delinquencies in our loan portfolio as of December 31, 2007.

	At December 31, 2007					
	30-59 Days Delinquent		60-89 Days Delinquent		90 or More Days Delinquent	
	Amount	Percent of Net Loans	Amount	Percent of Net Loans	Amount	Percent of Net Loans
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family residential(1)	$ 171	0.07%	$ 130	0.05%	$ 1,601	0.64%
Multi-family residential						
Construction						
Commercial(2)						
Consumer(3)						
Total delinquent loans	$ 171	0.07%	$ 130	0.05%	$ 1,601	0.64%

	At December 31, 2006					
	30-59 Days Delinquent		60-89 Days Delinquent		90 or More Days Delinquent	
	Amount	Percent of Net Loans	Amount	Percent of Net Loans	Amount	Percent of Net Loans
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family residential(1)	$ 506	0.21%	$ 265	0.11%	$ 468	0.19%
Multi-family residential						
Construction						
Commercial(2)						
Consumer(3)						
Total delinquent loans	$ 506	0.21%	$ 265	0.11%	$ 468	0.19%

(footnotes on next page)

	At December 31, 2005					
	30-59 Days Delinquent		60-89 Days Delinquent		90 or More Days Delinquent	
	Amount	Percent of Net Loans	Amount	Percent of Net Loans	Amount	Percent of Net Loans
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family residential(1)	$ 367	0.16%	$ 299	0.13%	$ 15	0.01%
Multi-family residential					134	0.06
Construction						
Commercial(2)						
Consumer(3)						
Total delinquent loans	$ 367	0.16%	$ 299	0.13%	$ 149	0.07%

	At December 31, 2004					
	30-59 Days Delinquent		60-89 Days Delinquent		90 or More Days Delinquent	
	Amount	Percent of Net Loans	Amount	Percent of Net Loans	Amount	Percent of Net Loans
	(Dollars in thousands)					
Real Estate Loans:						
One- to four-family residential(1)	$ 109	0.05%	$ 29	0.01%	$ 141	0.07%
Multi-family residential						
Construction						
Commercial(2)					94	0.05
Consumer(3)						
Total delinquent loans	$ 109	0.05%	$ 29	0.01%	$ 235	0.12%

(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes loans secured by land.

(3) Loans secured by deposit accounts.

The following table sets forth information regarding impaired and non-performing loans and assets.

	At December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Non-accrual real estate loans:					
One- to four-family residential(1)	$ 660	$ 269	$	$ 96	$ 4
Multi-family residential			134		
Construction					
Commercial(2)				94	226
Consumer(3)					
Total non-accruing loans(4)	660	269	134	190	230
Impaired loans		12	15	33	38
Accruing loans delinquent 90 days or more				28	194
Total non-performing loans	660	281	149	251	462
Real estate acquired through foreclosure	625		89	90	46
Total non-performing assets	$ 1,285	$ 281	$ 238	$ 341	$ 508
Non-performing assets to total assets	0.40%	0.09%	0.08%	0.12%	0.16%
Non-performing loans to net loans	0.26%	0.12%	0.07%	0.12%	0.25%

(1) Includes home equity lines of credit, loans purchased and loans held for sale.

(2) Includes loans secured by land.

(3) Loans secured by deposit accounts.

(4) For the year ended December 31, 2007, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $51,000. $9,000 in interest income was recorded on such loans during the year ended December 31, 2007.

Non-performing and impaired loans totaled $660,000 at December 31, 2007.

Our loan review procedures are performed quarterly. With respect to multi-family and commercial loans, we consider a loan impaired when, based on current information and events, it is probable, that we will be unable to collect all amounts due according to the loan s contractual terms.

We review all multi-family and commercial loans for impairment. These loans are individually assessed to determine whether the loan s carrying value is in excess of the fair value of the collateral or the present value of the loan s expected cash flows. Smaller balance homogenous loans that are collectively evaluated for impairment, such as residential mortgage loans and consumer loans, are specifically excluded from individual impairment review.

Classified Assets. Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a higher possibility of loss. An asset classified as a loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated special mention also may be established and maintained for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. If a classified asset is deemed to be impaired with measurement of loss, Cheviot Savings Bank will establish a charge-off of the loan pursuant to SFAS No. 114. The following table sets forth information regarding classified assets as of December 31, 2007 and 2006.

	At December 31,		
	2007	2006	2005
	(In thousands)		
Classification of Assets:			
Special Mention	$	$	$
Substandard	1,964	1,192	627
Doubtful			
Loss			
Total	$ 1,964	$ 1,192	$ 627

General loss allowances established to cover inherent, but unconfirmed losses in the portfolio may be included in determining an institution s regulatory capital. Federal examiners may disagree with an insured institution s classifications and amounts reserved.

Allowance for Loan Losses. We maintain the allowance through provisions for loan losses that we charge to income. We charge losses on loans against the allowance for loan losses when we believe the collection of loan principal is unlikely. Recoveries on loans charged-off are restored to the allowance for loan losses. The allowance for loan losses is maintained at a level believed, to the best of management s knowledge, to cover all known and inherent losses in the portfolio both probable and reasonable to estimate at each reporting date. The level of allowance for loan losses is based on management s periodic review of the collectibility of the loans principally in light of our historical experience, augmented by the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral and current and anticipated economic conditions in the primary lending area.

In addition, the regulatory agencies, as an integral part of their examination and review process, periodically review our loan portfolios and the related allowance for loan losses. Regulatory agencies may require us to increase the allowance for loan losses based on their judgments of information available to them at the time of their examination, thereby adversely affecting our results of operations.

At December 31, 2007 and 2006, our allowance for loan losses was $596,000 and $833,000, respectively. Our ratio of the allowance for loan losses as a percentage of net loans receivable was 0.24% and 0.35% at December 31, 2007 and 2006.

The following table sets forth the analysis of the activity in the allowance for loan losses for the periods indicated:

	At or For the Year Ended December 31,	At or For the Year Ended December 31,	At or For the Year Ended December 31,	At or For the Year Ended December 31,	At or For the Nine Months Ended December 31,	At and For the Year Ended March 31,
	2007	2006	2005	2004	2003	2003
	(Dollars in thousands)					
Balance at beginning of year	$ 833	$ 808	$ 732	$ 768	$ 735	$ 483
Charge offs:						
One- to four-family residential(1)	(353)		(21)		(12)	$
Multi-family residential				(36)		
Construction						
Commercial(2)						
Consumer(3)						
Total charge-offs	(353)		(21)	(36)	(12)	
Recoveries:						
One- to four-family residential(1)						
Multi-family residential						
Construction						
Commercial(2)						2
Consumer(3)						
Total recoveries						2
Net recoveries (charge offs)	(353)		(21)	(36)	(12)	2
Provision for losses on loans	116	25	97		45	250
Balance at end of year	$ 596	$ 833	$ 808	$ 732	$ 768	$ 735
Total loans receivable, net (1)	$ 249,832	$ 241,178	$ 222,771	$ 203,842	$ 186,853	$ 182,444
Average loans receivable outstanding (1)	$ 246,335	$ 233,331	$ 211,736	$ 197,000	$ 185,149	$ 176,728
Allowance for loan losses as a percent of net loans receivable	0.24%	0.35%	0.36%	0.36%	0.41%	0.40%
Net loans charged off as a percent of average loans outstanding	0.14%	0.00%	0.01%	0.02%	0.01%	0.00%

(1) Includes home equity lines of credit, loans purchased and loans held for sale.

(2) Includes loans secured by land.

(3) Loans secured by deposit.

The following table sets forth the allocation of the allowance for loan losses by loan category for the years indicated. This allocation is based on management s assessment, as of a given point in time, of the risk characteristics of each of the component parts of the total loan portfolio and is subject to changes as and when the risk factors of each such component part change. The allocation is neither indicative of the specific amounts or the loan categories in which future charge-offs may be taken nor is it an indicator of future loss trends. The allocation of the allowance to each category does not restrict the use of the allowance to absorb losses in any category.

	At December 31,					
	2007			2006		
	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Loan Category						
Allocated:						
Real estate - mortgage						
One-to four-family residential(1)	$ 320	$ 216,958	84.39%	$ 318	$ 209,996	84.06%
Multi-family residential	20	10,638	4.14	236	11,250	4.50
Construction	7	19,421	7.55	4	19,022	7.61
Commercial(2)	249	10,018	3.90	275	9,466	3.80
Consumer(3)		66	0.02			