

Cheviot Financial Corp.
Form 10-Q
May 10, 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 March 31, 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 May 10, 2013, the latest practicable date, 7,237,526 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)

| | March 31, 2013 (Unaudited) | December 31, 2012 |
|--|----------------------------------|-------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 11,559 | \$ 10,251 |
| Federal funds sold | 25,182 | 12,555 |
| Interest-earning deposits in other financial institutions | 11,847 | 2,308 |
| Cash and cash equivalents | 48,588 | 25,114 |
| Investment securities available for sale – at fair value | 167,583 | 195,963 |
| Mortgage-backed securities available for sale - at fair value | 5,576 | 6,029 |
| Mortgage-backed securities held to maturity - at cost, approximate market value of \$3,634 and \$3,772 at March 31, 2013 and December 31, 2012, respectively | 3,479 | 3,581 |
| Loans receivable - net | 332,513 | 337,110 |
| Loans held for sale - at lower of cost or market | 934 | 3,304 |
| Real estate acquired through foreclosure - net | 4,596 | 3,980 |
| Office premises and equipment - at depreciated cost | 12,895 | 12,481 |
| Federal Home Loan Bank stock - at cost | 8,651 | 8,651 |
| Accrued interest receivable on loans | 1,266 | 1,303 |
| Accrued interest receivable on mortgage-backed securities | 19 | 20 |
| Accrued interest receivable on investments and interest-earning deposits | 557 | 941 |
| Goodwill | 10,309 | 10,309 |
| Core deposit intangible | 681 | 746 |
| Prepaid expenses and other assets | 4,811 | 4,596 |
| Bank-owned life insurance | 15,369 | 15,249 |
| Prepaid federal income taxes | 1,192 | 1,192 |
| Deferred federal income taxes | 1,231 | 1,413 |
| Total assets | \$ 620,250 | \$ 631,982 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits | \$ 486,207 | \$ 490,646 |
| Advances from the Federal Home Loan Bank | 22,331 | 24,314 |
| Advances by borrowers for taxes and insurance | 1,480 | 2,331 |
| Accrued interest payable | 94 | 90 |
| Accounts payable and other liabilities | 4,952 | 6,701 |
| Total liabilities | 515,064 | 524,082 |
| Shareholders' equity | | |
| Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued | | |

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| | | |
|---|------------|------------|
| Common stock - authorized 30,000,000 shares, \$.01 par value; 7,363,326 and 7,596,557 shares issued at March 31, 2013 and December 31, 2012 | 76 | 76 |
| Additional paid-in capital | 63,227 | 65,772 |
| Shares acquired by stock benefit plans | (1,992) | (1,992) |
| Retained earnings - restricted | 43,572 | 43,444 |
| Accumulated comprehensive gain, unrealized gains on securities available for sale, net of related tax expense | 303 | 600 |
| Total shareholders' equity | 105,186 | 107,900 |
| Total liabilities and shareholders' equity | \$ 620,250 | \$ 631,982 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

For the three months ended March 31, 2013 and 2012

(In thousands, except per share data)

| | 2013 | 2012 |
|---|---------|---------|
| Interest income | | |
| Loans | \$4,074 | \$4,832 |
| Mortgage-backed securities | 41 | 60 |
| Investment securities | 869 | 569 |
| Interest-earning deposits and other | 97 | 96 |
| Total interest income | 5,081 | 5,557 |
| Interest expense | | |
| Deposits | 967 | 1,272 |
| Borrowings | 193 | 252 |
| Total interest expense | 1,160 | 1,524 |
| Net interest income | 3,921 | 4,033 |
| Provision for losses on loans | 55 | 150 |
| Net interest income after provision for losses on loans | 3,866 | 3,883 |
| Other income | | |
| Rental | 41 | 37 |
| Gain (loss) on sale of real estate acquired through foreclosure | (3 |) 29 |
| Gain on sale of loans | 238 | 377 |
| Earnings on bank-owned life insurance | 120 | 80 |
| Service fee income | 360 | 399 |
| Other operating | 191 | 54 |
| Total other income | 947 | 976 |
| General, administrative and other expense | | |
| Employee compensation and benefits | 1,683 | 1,658 |
| Occupancy and equipment | 404 | 426 |
| Property, payroll and other taxes | 368 | 295 |
| Data processing | 148 | 156 |
| Legal and professional | 215 | 169 |
| Advertising | 75 | 75 |
| FDIC expense | 108 | 114 |
| ATM processing expense | 89 | 89 |
| Real estate owned impairment | 101 | 52 |
| Core deposit intangible amortization | 65 | 88 |
| Other operating | 431 | 464 |
| Total general, administrative and other expense | 3,687 | 3,586 |

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| | | |
|--------------------------------------|--------------|--------------|
| Earnings before federal income taxes | 1,126 | 1,273 |
| Federal income taxes | | |
| Current | - | 241 |
| Deferred | 335 | 149 |
| Total federal income taxes | 335 | 390 |
| NET EARNINGS | \$791 | \$883 |
| EARNINGS PER SHARE | | |
| Basic | \$.11 | \$.12 |
| Diluted | \$.11 | \$.12 |
| Dividends declared per share | \$.09 | \$.08 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months ended March 31, 2013 and 2012
(In thousands)

| | 2013 | 2012 |
|---|--------|----------|
| Net earnings for the period | \$791 | \$883 |
| Other comprehensive loss, net of related tax benefits: | | |
| Unrealized holding losses on securities during the period, net of tax benefits of \$153 and \$297 for the periods ended March 31, 2013 and 2012, respectively | (297) | (576) |
| Comprehensive income | \$494 | \$307 |
| Accumulated comprehensive gain (loss) | \$303 | \$(298) |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31, 2013 and 2012

(In thousands)

| | 2013 | 2012 |
|---|-----------|-----------|
| Cash flows from operating activities: | | |
| Net earnings for the period | \$791 | \$883 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Amortization of premiums and discounts on investment and mortgage-backed securities, net | (7) | (21) |
| Depreciation | 185 | 186 |
| Charitable donation of real estate owned property | 32 | - |
| Amortization of deferred loan origination costs - net | (3) | 1 |
| Proceeds from sale of loans in the secondary market | 16,590 | 17,158 |
| Loans originated for sale in the secondary market | (13,877) | (18,382) |
| Gain on sale of loans | (238) | (377) |
| Amortization of expense related to stock benefit plans | (1) | (16) |
| Provision for losses on loans | 55 | 150 |
| Amortization of fair value adjustments | (277) | (208) |
| (Gain) loss on real estate acquired through foreclosure | 3 | (29) |
| Impairment on real estate acquired through foreclosure | 101 | 52 |
| Net increase in cash surrender value of bank-owned life insurance | (120) | (80) |
| Increase (decrease) in cash, due to changes in: | | |
| Accrued interest receivable on loans | 37 | 108 |
| Accrued interest receivable on mortgage-backed securities | 1 | 1 |
| Accrued interest receivable on investments and interest-earning deposits | 384 | 24 |
| Prepaid expenses and other assets | (215) | 853 |
| Accrued interest payable | 4 | (6) |
| Accounts payable and other liabilities | (1,774) | (786) |
| Federal income taxes | | |
| Current | - | 181 |
| Deferred | 335 | 149 |
| Net cash flows provided by (used in) operating activities | 2,006 | (159) |
| Cash flows provided by (used in) investing activities: | | |
| Principal repayments on loans | 18,406 | 22,678 |
| Loan disbursements | (14,942) | (9,192) |
| Purchase of investment securities – available for sale | (31,273) | (77,155) |
| Proceeds from maturity of investment securities – available for sale | 61,175 | 39,350 |
| Purchase of corporate securities | (1,920) | - |
| Principal repayments on mortgage-backed securities – available for sale | 408 | 336 |
| Principal repayments on mortgage-backed securities – held to maturity | 102 | 136 |
| Proceeds from the sale of real estate acquired through foreclosure | 413 | 1,106 |
| Purchase of office premises and equipment | (599) | (333) |
| Net cash flows provided by (used in) investing activities | 31,770 | (23,074) |

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| | | |
|---|-----------|----------|
| Cash flows provided by (used in) financing activities: | | |
| Net increase (decrease) in deposits | (4,283) | 7,440 |
| Repayments on Federal Home Loan Bank advances | (1,961) | (2,804) |
| Advances by borrowers for taxes and insurance | (851) | (810) |
| Stock option expense, net | 5 | 5 |
| Proceeds from stock conversion | - | 22,151 |
| Shares acquired by stock benefit plans | - | (1,496) |
| Common stock repurchased | (2,549) | - |
| Dividends paid on common stock | (663) | (607) |
| Net cash flows provided by (used in) financing activities | (10,302) | 23,879 |
| | | |
| Net increase in cash and cash equivalents | 23,474 | 646 |
| | | |
| Cash and cash equivalents at beginning of period | 25,114 | 45,140 |
| | | |
| Cash and cash equivalents at end of period | \$48,588 | \$45,786 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the three months ended March 31, 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 | \$1,156 | \$1,530 |
| Supplemental disclosure of non-cash investing activities: | | |
| Transfer from loans to real estate acquired through foreclosure | \$1,165 | \$1,261 |
| Recognition of mortgage servicing rights | \$126 | \$127 |
| Deferred gain on real estate acquired through foreclosure | \$- | \$13 |

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 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 we completed our 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 three month period ended March 31, 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 three months ended March 31, 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 our 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 our customers and to fund current and planned expenditures. Our 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 our operations. In addition, we may borrow from the Federal Home Loan Bank of Cincinnati. At March 31, 2013 and December 31, 2012, we had \$22.3 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 \$132.6 million and \$136.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 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.

Our 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 three months ended March 31, 2013, loan originations totaled \$28.8 million, compared to \$27.6 million for the three months ended March 31, 2012.

Total deposits decreased \$4.4 million during the three months ended March 31, 2013, while total deposits increased \$7.4 million during the three months ended March 31, 2012, respectively. 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 March 31, 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 | \$- | \$4,511 | \$14,181 | \$3,639 | \$22,331 |
| Certificates of deposit | 122,119 | 88,270 | 41,764 | 6 | 252,159 |
| Lease obligations | 182 | 358 | 114 | 248 | 902 |
| Amount of loan commitments and expiration per period: | | | | | |
| Commitments to originate one- to four-family loans | 4,842 | - | - | - | 4,842 |
| Home equity lines of credit | 27,569 | - | - | - | 27,569 |
| Commercial lines of credit | 1,433 | - | - | - | 1,433 |
| Undisbursed loans in process | 1,398 | - | - | - | 1,398 |
| Total contractual obligations | \$157,543 | \$93,139 | \$56,059 | \$3,893 | \$310,634 |

We are committed to maintaining a strong liquidity position and we monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time

deposits will be retained.

At March 31, 2013 and 2012, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was \$77.4 million and \$76.3 million, or 12.8% and 12.1% of total assets at March 31, 2013 and 2012, respectively. In order to be classified as “well-capitalized” under federal banking regulations, we were required to have core capital of at least \$37.1 million, or 6.0% of assets as of March 31, 2013. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At March 31, 2013 and 2012, we had a total risk-based capital ratio of 25.3% and 24.7%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 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 three months ended March 31, 2013 and 2012, respectively.

| | For the three months ended March 31, | |
|--|---|-----------|
| | 2013 | 2012 |
| Weighted-average common shares outstanding (basic) | 7,300,012 | 7,618,322 |
| Dilutive effect of assumed exercise of stock options | 6,688 | 7,391 |
| Weighted-average common shares outstanding (diluted) | 7,306,700 | 7,625,713 |

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 416,517 stock options. During 2012, 2011 and 2010 approximately 5,600, 3,771 and 7,593 stock options were granted subject to a five year vesting period. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857.

The Corporation follows FASB Accounting Standard Codification Topic 718 (ASC 718), "Compensation – Stock Compensation," for its stock option plans, and accordingly, the Corporation recognizes the expense of these grants as required. Stock-based employee compensation costs pertaining to stock options is reflected as a net increase in equity, for both any new grants, as well as for all unvested options outstanding at December 31, 2005, in both cases using the fair values established by usage of the Black-Scholes option pricing model, expensed over the vesting period of the underlying option.

The Corporation elected the modified prospective transition method in applying ASC 718. Under this method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption, as well as for all unvested options outstanding at December 31, 2005. The compensation cost recorded for unvested equity-based awards is based on their grant-date fair value. For the three months ended March 31, 2013, the Corporation recorded \$6,000 in after-tax compensation cost for equity-based awards that vested during the three months ended March 31, 2013. The Corporation has \$45,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of March 31, 2013, which is expected to be recognized over a weighted-average vesting period of approximately 2.0 months.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of March 31, 2013, and changes during the period then ended is presented below:

| | Three months ended March 31, 2013 | | Year ended December 31, 2012 | |
|---|--------------------------------------|---|---------------------------------|---|
| | Shares | Weighted- average exercise price | Shares | Weighted- average exercise price |
| Outstanding at beginning of period | 370,339 | \$ 12.80 | 425,600 | \$ 11.10 |
| Stock conversion | - | - | (60,861) | 1.76 |
| Granted | - | - | 5,600 | 8.30 |
| Exercised | - | - | - | - |
| Forfeited | (400) | 8.30 | - | - |
| Outstanding at end of period | 369,939 | \$ 12.80 | 370,339 | \$ 12.80 |
| Options exercisable at period-end | 353,022 | \$ 12.96 | 353,022 | \$ 12.96 |
| Options expected to be exercisable at year-end | | | | |
| Fair value of options granted | | NA | | \$ 1.28 |

The following information applies to options outstanding at March 31, 2013:

| | |
|---|---------------------|
| Number outstanding | 369,939 |
| Exercise price | \$8.30 - \$15.90 |
| Weighted-average exercise price | \$12.96 |
| Weighted-average remaining contractual life | 2.6 years |

The expected term of options is based on evaluations of historical and expected future employee exercise behavior. The risk free interest rate is based upon the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based upon the historical volatility of the Corporation's stock.

The fair value of each option was estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 2012: dividend yield of 3.86%, expected volatility of 24.1%, risk-free interest rate of 1.64% and an expected life of 10 years for each grant.

On April 23, 2013, shareholders approved the 2013 Equity Incentive Plan.

The effects of expensing stock options are reported in “cash provided by financing activities” in the Consolidated Statements of Cash Flows.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three months ended March 31, 2013 and 2012

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at March 31, 2013 and December 31, 2012 are shown below.

| | March 31, 2013 | | | |
|--------------------------------------|-------------------------------------|------------------------------|-------------------------------|----------------------------|
| | Amortized cost (In thousands) | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Available for Sale: | | | | |
| U.S. Government agency securities | \$ 162,366 | \$ 165 | \$ 502 | \$ 162,029 |
| Municipal obligations | 3,036 | 192 | 28 | 3,200 |
| Corporate securities | 1,920 | 434 | - | 2,354 |
| | \$ 167,322 | \$ 791 | \$ 530 | \$ 167,583 |
| | | | | |
| | December 31, 2012 | | | |
| | Amortized cost (In thousands) | Gross unrealized gains | Gross unrealized losses | Estimated fair value |