

CHEVIOT FINANCIAL CORP
Form 10-Q
August 12, 2010

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,
2010

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)

Federal	56-2423720
(State or other jurisdiction of incorporation or organization)	(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.)

Edgar Filing: CHEVIOT FINANCIAL CORP - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small business issuer

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, 2010, the latest practicable date, 8,861,110 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

INDEX

	Page
PART I	
- FINANCIAL INFORMATION	
Consolidated Statements of Financial Condition	3
Consolidated Statements of Earnings	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	8
Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Quantitative and Qualitative Disclosures about Market Risk	31
Controls and Procedures	31
PART II	
- OTHER INFORMATION	32
SIGNATURES	33

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

ASSETS	June 30, 2010 (Unaudited)	December 31, 2009
Cash and due from banks	\$3,635	\$3,217
Federal funds sold	10,361	4,582
Interest-earning deposits in other financial institutions	5,102	3,484
Cash and cash equivalents	19,098	11,283
Investment securities available for sale - at fair value	62,985	55,851
Mortgage-backed securities available for sale - at fair value	4,573	4,920
Mortgage-backed securities held to maturity - at cost, approximate market value of \$5,364 and \$5,816 at June 30, 2010 and December 31, 2009, respectively	5,229	5,744
Loans receivable - net	241,047	245,905
Loans held for sale - at lower of cost or market	1,090	1,097
Real estate acquired through foreclosure - net	1,623	2,048
Office premises and equipment - at depreciated cost	4,732	4,889
Federal Home Loan Bank stock - at cost	3,375	3,369
Accrued interest receivable on loans	1,047	1,074
Accrued interest receivable on mortgage-backed securities	29	36
Accrued interest receivable on investments and interest-earning deposits	469	322
Prepaid expenses and other assets	1,954	1,591
Bank-owned life insurance	3,722	3,653
Prepaid federal income taxes	73	78
Total assets	\$ 351,046	\$ 341,860
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$242,020	\$235,904
Advances from the Federal Home Loan Bank	35,870	33,672
Advances by borrowers for taxes and insurance	553	1,501
Accrued interest payable	128	136
Accounts payable and other liabilities	1,653	1,625
Deferred federal income taxes	679	272
Total liabilities	280,903	273,110
Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, \$.01 par value; none issued		
Common stock - authorized 30,000,000 shares, \$.01 par value; 9,918,751 shares issued at June 30, 2010 and December 31, 2009, respectively	99	99

Edgar Filing: CHEVIOT FINANCIAL CORP - Form 10-Q

Additional paid-in capital	43,885	43,819
Shares acquired by stock benefit plans	(1,659)	(2,069)
Treasury stock - at cost, 1,053,843 and 1,050,045 shares at June 30, 2010 and December 31, 2009, respectively	(12,859)	(12,828)
Retained earnings - restricted	40,442	40,109
Accumulated comprehensive loss, unrealized gains (losses) on securities available for sale, net of related tax effects	235	(380)
Total shareholders' equity	70,143	68,750
Total liabilities and shareholders' equity	\$ 351,046	\$ 341,860

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Six months ended June 30,		Three months ended June 30,	
	2010	2009	2010	2009
	(Unaudited)			
Interest income				
Loans	\$6,913	\$7,527	\$3,405	\$3,678
Mortgage-backed securities	162	231	76	126
Investment securities	848	654	475	286
Interest-earning deposits and other	77	25	37	15
Total interest income	8,000	8,437	3,993	4,105
Interest expense				
Deposits	1,784	2,636	869	1,262
Borrowings	718	928	352	456
Total interest expense	2,502	3,564	1,221	1,718
Net interest income	5,498	4,873	2,772	2,387
Provision for losses on loans	100	452	60	115
Net interest income after provision for losses on loans	5,398	4,421	2,712	2,272
Other income (expense)				
Rental	32	25	16	12
Gain on sale of loans	82	272	46	141
Loss on sale of real estate acquired through foreclosure	(22)	(49)	(22)	(29)
Earnings on bank-owned life insurance	69	68	35	34
Other operating	208	158	112	85
Total other income	369	474	187	243
General, administrative and other expense				
Employee compensation and benefits	2,251	2,284	1,091	1,166
Occupancy and equipment	323	281	159	138
Property, payroll and other taxes	499	509	254	259
Data processing	112	184	51	99
Legal and professional	236	220	107	88
Advertising	100	100	50	50
FDIC expense	147	157	76	147
Other operating	396	426	178	234
Total general, administrative and other expense	4,064	4,161	1,966	2,181
Earnings before income taxes	1,703	734	933	334

Edgar Filing: CHEVIOT FINANCIAL CORP - Form 10-Q

Federal income taxes				
Current	531	181	229	16
Deferred	91	35	126	93
Total federal income taxes	622	216	355	109
NET EARNINGS	\$1,081	\$518	\$578	\$225
EARNINGS PER SHARE				
Basic	\$.12	\$.06	\$.06	\$.03
Diluted	\$.12	\$.06	\$.06	\$.03
Dividends per common share	\$.22	\$.20	\$.11	\$.10

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six and three months ended June 30, 2010 and 2009

(In thousands)

	For the six months ended June 30,		For the three months ended June 30,	
	2010	2009	2010	2009
			(Unaudited)	
Net earnings for the period	\$1,081	\$518	\$578	\$225
Other comprehensive income (loss), net of tax expense (benefits):				
Unrealized holding gains (losses) on securities during the period, net of tax expense (benefits) of \$317 and \$10 for the six months ended June 30, 2010 and 2009, respectively, and \$231 and \$39 for the three months ended June 30, 2010 and 2009, respectively	615	19	448	76
Comprehensive income	\$1,696	\$537	\$1,026	\$301
Accumulated comprehensive income	\$235	\$(122)	\$235	\$(122)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2010 and 2009

(In thousands)

	2010 (Unaudited)	2009
Cash flows from operating activities:		
Net earnings for the period	\$1,081	\$518
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	4
Depreciation	158	152
Amortization of deferred loan origination fees - net	(4	) (12
Proceeds from sale of loans in the secondary market	5,194	16,073
Loans originated for sale in the secondary market	(5,112	) (15,801
Gain on sale of loans	(82	) (272
Loss on sale of real estate acquired through foreclosure	22	49
Impairment on real estate acquired through foreclosure	100	-
Federal Home Loan Bank stock dividends	(6) -
Net increase in cash surrender value of bank-owned life insurance	(69	) (68
Provision for losses on loans	100	452
Amortization of expense related to stock benefit plans	390	373
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	27	21
Accrued interest receivable on mortgage-backed securities	7	(10
Accrued interest receivable on investments and interest-earning deposits	(147	) 199
Prepaid expenses and other assets	(363	) (575
Accrued interest payable	(8	) (7
Accounts payable and other liabilities	28	1,604
Federal income taxes		
Current	5	(110
Deferred	91	35
Net cash provided by operating activities	1,431	2,625
Cash flows used in investing activities:		
Principal repayments on loans	20,729	41,481
Loan disbursements	(16,054	) (26,588
Purchase of investment securities – available for sale	(47,191	) (40,039
Proceeds from maturity of investment securities – available for sale	40,901	20,565
Proceeds from maturity of investment securities – held to maturity	-	7,000
Purchase of mortgage-backed securities – available for sale	-	(5,267
Principal repayments on mortgage-backed securities – available for sale	415	476
Principal repayments on mortgage-backed securities – held to maturity	515	548
Proceeds from sale of real estate acquired through foreclosure	461	219

Edgar Filing: CHEVIOT FINANCIAL CORP - Form 10-Q

Additions to real estate acquired through foreclosure	(64	)	(59)
Purchase of office premises and equipment	(1	)	(202)
Net cash used in investing activities	(289	)	(1,866)
Cash flows provided by financing activities:				
Net increase in deposits	6,116		13,734	
Proceeds from Federal Home Loan Bank advances	10,000		-	
Repayments on Federal Home Loan Bank advances	(7,802	)	(4,268)
Advances by borrowers for taxes and insurance	(948	)	(923)
Treasury stock repurchases	(31	)	(28)
Stock option expense, net	86		124	
Dividends paid on common stock	(748	)	(680)
Net cash provided by financing activities	6,673		7,959	
Net increase in cash and cash equivalents	7,815		8,718	
Cash and cash equivalents at beginning of period	11,283		10,013	
Cash and cash equivalents at end of period	\$19,098		\$18,731	

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30, 2010 and 2009
(In thousands)

	2010	2009
	(Unaudited)	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$524	\$287
Interest on deposits and borrowings	\$2,494	\$3,571
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	\$94	\$1,140
Recognition of mortgage servicing rights	\$38	\$126

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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 to the origination of primarily real estate loans. The Corporation is 62% owned by Cheviot Mutual Holding Company. Earnings per share is reported including all shares held by Cheviot Mutual Holding Company. Cheviot Mutual Holding Company has waived the receipt of dividends declared by the Corporation. Cheviot Savings’ 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.

The accompanying unaudited 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, 2009. 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 and six month periods ended June 30, 2010, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and six months ended June 30, 2010 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 June 30, 2010 and December 31, 2009, we had \$35.9 million and \$33.7 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 \$133.2 million and \$109.3 million, respectively.

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.

8

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2010 and 2009

3. Liquidity and Capital Resources (continued)

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 six months ended June 30, 2010, loan originations totaled \$21.2 million, compared to \$42.4 million for the six months ended June 30, 2009.

Total deposits increased \$6.1 million during the six months ended June 30, 2010 and increased \$13.7 million during the six months ended June 30, 2009, 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 contract as of June 30, 2010.

	Payments due by period				Total
	Less than 1 year	More than 1-3 years	More than 4-5 years (In thousands)	More than 5 years	
Contractual obligations:					
Advances from the Federal Home Loan Bank Certificates of deposit					
	\$ 5,000	\$ 1,563	\$ 4,307	\$ 25,000	\$ 35,870
	99,042	31,043	9,894	-	139,979
Amount of loan commitments and expiration per period:					
Commitments to originate one-to four-family loans					
	896	-	-	-	896
Home equity lines of credit	12,603	-	-	-	12,603
Undisbursed loans in process	3,289	-	-	-	3,289
Total contractual obligations	\$ 120,830	\$ 32,606	\$ 14,201	\$ 25,000	\$ 192,637

We are committed to maintaining a strong liquidity position. 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.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and six months ended June 30, 2010 and 2009

3. Liquidity and Capital Resources (continued)

At June 30, 2010 and 2009, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was \$56.2 million and \$57.0 million, or 16.5% and 17.0% of total assets at June 30, 2010 and 2009, respectively. In order to be classified as “well-capitalized” under federal banking regulations, we were required to have core capital of at least \$20.5 million, or 6.0% of assets as of June 30, 2010. 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 June 30, 2010 and 2009, we had a total risk-based capital ratio of 34.0% and 34.2%, respectively.

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. The weighted average common shares outstanding includes 5,455,313 shares held by our mutual holding company parent. Weighted-average common shares deemed outstanding gives effect to 142,833 and 178,540 unallocated shares held by the ESOP for the three and six months ended June 30, 2010 and 2009, respectively.

	For the six months ended June 30,		For the three months ended June 30,	
	2010	2009	2010	2009
Weighted-average common shares outstanding (basic)	8,724,677	8,692,768	8,723,494	8,691,585
Dilutive effect of assumed exercise of stock options	9,486	36,436	9,456	33,062
Weighted-average common shares outstanding (diluted)	8,734,163	8,729,204	8,732,950	