Cheviot Financial Corp.
Form 10-K
March 12, 2013

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, 2012
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. 001-35399

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, Cheviot, Ohio (Address of Principal Executive Offices)	45211 Zip Code

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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share (Title of Class)	The Nasdaq Stock Market, LLC (Name of Each Exchange on which Registered)

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 o NO x

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, 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 such shorter period that the Registrant was required to submit and post such files). 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 (Do not check if a smaller reporting company)	Smaller reporting company x

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 value of the voting and non-voting common stock held by non-affiliates of the Registrant, computed by reference to the closing price of the common stock as of June 30, 2012 was $55.6 million.

As of February 27, 2013, there was issued and outstanding 7,400,326 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

(1) Proxy Statement for the 2013 Annual Meeting of Stockholders of the Registrant (Part III).
(2) Annual Report to Shareholders (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 i but are not limited to, estimates with 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.

On January 18, 2012, Cheviot Financial Corp., a Maryland corporation (the “Company”), completed its second-step conversion and related public stock offering. Cheviot Savings Bank is now 100% owned by the Company and the Company is 100% owned by public stockholders. The Company sold a total of 4,675,000 shares of common stock in a subscription, community and syndicated community offerings, including 187,000 shares to the Company’s employee stock ownership plan. All shares were sold at a purchase price of $8.00 per share.

Concurrent with the completion of the offering, shares of common stock of Cheviot Financial Corp., a federal corporation, owned by public stockholders were converted into the right to receive 0.8570 shares of the Company’s common stock. Cash in lieu of fractional shares was paid at a rate of $8.00 per share. As a result of the offering and the exchange, the Company had 7,596,557 shares outstanding.

The Company is subject to comprehensive regulation and examination by the Board of Governors of the Federal Reserve System. Cheviot Financial Corp.’s executive offices are located at 3723 Glenmore Avenue, Cheviot, Ohio 45211, and its telephone number at this address is (513) 661-0457. At December 31, 2012, we had consolidated assets of $632.0 million, deposits of $490.6 million and shareholders’ equity $107.9 million. References to Cheviot Financial Corp., or the Company refer to the predecessor corporation where appropriate.

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. At December 31, 2012, the Bank’s tangible core and risk-based capital ratios were 12.4%, 12.4% and 25.6%, levels well in excess of regulatory requirements.

On March 16, 2011, we completed the acquisition of First Franklin Corporation and its wholly-owned subsidiary, The Franklin Savings and Loan Company. The aggregate cash consideration paid in the acquisition (including the cancellation of stock options) was approximately $24.7 million. We acquired $277.6 million of assets, including $196.5 million of net loans, and also assumed $252.9 million of liabilities, including $221.5 million of deposits. We recorded goodwill and other intangible assets associated with the acquisition totaling $11.6 million.

Market Area

We conduct our operations from our executive office in Cheviot, Ohio and 11 full-service branches, all of which are located in Hamilton County, Ohio. Cheviot, Ohio is located in Hamilton County and is 10 miles west of downtown Cincinnati. Prior to our acquisition of First Franklin, we operated primarily on the west side of Cincinnati, Ohio and the surrounding areas, but, as a result of the acquisition, we now operate throughout Cincinnati and its surrounding areas. 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 also originate loans in the northern Kentucky region secured by properties in Campbell, Kenton and Boone Counties. The local economy is diversified with services, trade and manufacturing employment remaining the most prominent employment sectors in Hamilton County. Hamilton County is primarily a developed and urban county. The employment base is diversified and there is no dependence on one area of the economy for continued employment. Major employers in the market include Proctor & Gamble, Kroger's, Macy's, city and county governments and the University of Cincinnati. 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 had population growth. 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. From 2000 to 2010, Hamilton County's population decreased by 5.1%, while population increases in the remainder of our market area ranged from a low of 5.5% in Kenton County, Kentucky to a high of 38.2% in Boone County, Kentucky. Ohio's population increased by 1.6% during this period, and the United States' population as a whole increased by 9.7%. Median per capita income for Hamilton County as of 2000 ($24,000) was above comparable measures for both the United States and Ohio ($22,000 and $21,000, respectively), and median per household income for Hamilton County as of 2010 ($41,000) was comparable to the same measures for both the United States and Ohio ($42,000 and $41,000, respectively), which we believe indicates the relatively stable and diversified economy in the regional market served by Cheviot Savings Bank. During the current economic difficulties, our market area has experienced a decrease in property values and building development.

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 significant competition within our market both in making loans and attracting deposits. Our market area 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. Our loan portfolio decreased to $340.4 million at December 31, 2012 from $384.3 million at December 31, 2011.

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,					
	2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Real estate loans:						
One- to four-family residential (1)	$249,202	72.62 %	$290,808	75.14 %	$195,801	84.76 %
Multi-family residential	23,866	6.96	26,210	6.77	8,594	3.72
Construction	1,243	0.36	4,390	1.13	7,081	3.06
Commercial (2)	42,148	12.28	42,491	10.98	13,422	5.81
Other real estate	5,134	1.50	5,311	1.37	—	—
Commercial business	19,884	5.79	15,592	4.03	5,907	2.56
Consumer (3)	1,691	0.49	2,210	0.58	207	0.09
Total loans	343,168	100.00 %	387,012	100.00 %	231,012	100.00 %
Less:						
Undisbursed portion of loans in process	933		1,478		4,482	
Deferred loan origination fees	(339)		(209)		(150)	
Allowance for loan losses	2,160		1,447		1,242	
Total loans, net	$340,414		$384,296		$225,438	

	At December 31,			
	2009		2008	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
One- to four-family residential (1)	$ 220,714	88.05 %	$ 234,822	86.38 %
Multi-family residential	9,114	3.64	9,385	3.45
Construction	4,868	1.94	11,646	4.28
Commercial (2)	11,321	4.51	14,590	5.37
Other real estate	—	—	—	—
Commercial business	4,604	1.84	1,352	0.50
Consumer (3)	51	0.02	48	0.02
Total loans	250,672	100.00 %	271,843	100.00 %
Less:				
Undisbursed portion of loans in process	2,696		2,623	
Deferred loan origination fees	(51)		28	

Allowance for loan losses		1,025		709
Total loans, net	$	247,002	$	268,483

(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes land loans.
(3) For all dates, includes loans secured by deposit accounts.

Loan Maturity Schedule. The following tables set forth certain information as of December 31, 2012 and December 31, 2011, 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, 2012						
	Within One Year	One Through Three Years	Over Three Through Five Years	Over Five Through Ten Years	Over Ten Through Twenty Years	Beyond Twenty Years	Total
				(In thousands)			
Real estate loans:							
One- to four-family residential	$8,986	$19,232	$21,047	$48,311	$131,406	$20,220	$249,202
Multi-family residential	1,336	2,959	3,385	10,759	5,427	—	23,866
Construction	106	228	252	559	98	—	1,243
Commercial	2,577	5,611	6,280	19,179	8,501	—	42,148
Other real estate	281	623	713	2,269	1,248	—	5,134
Commercial business	1,247	2,718	3,047	9,322	3,550	—	19,884
Consumer	345	741	605	—	—	—	1,691
Total loans	$14,878	$32,112	$35,329	$90,399	$150,230	$20,220	$343,168

	At December 31, 2011						
	Within One Year	One Through Three Years	Over Three Through Five Years	Over Five Through Ten Years	Over Ten Through Twenty Years	Beyond Twenty Years	Total
				(In thousands)			
Real estate loans:							
One- to four-family residential*	$9,948	$21,010	$23,146	$68,716	$129,558	$38,430	$290,808
Multi-family residential	747	1,627	1,822	5,565	15,706	743	26,210
Construction	89	200	230	749	2,636	486	4,390
Commercial	1,135	2,490	2,823	8,808	25,956	1,279	42,491
Other real estate	135	297	337	1,052	3,099	391	5,311
Commercial business	422	930	1,053	3,287	9,685	215	15,592
Consumer	208	456	513	478	555	—-	2,210
Total loans	$12,684	$27,010	$29,924	$88,655	$187,195	$41,544	$387,012

* Loan maturity table for December 31, 2011 has been restated to be consistent with current year presentation. Prior year presentation used underlying loan data based on OTS reporting format.

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Fixed and Adjustable-Rate Loan Schedule. The following tables set forth at December 31, 2012 and December 31, 2011, the dollar amount of all fixed-rate and adjustable-rate loans and home equity lines of credit due after December 31, 2013 and December 31, 2012, respectively.

	At December 31, 2012 and Due After December 31, 2013		
	Fixed	Floating or Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 122,510	$ 117,706	$ 240,216
Multi-family residential	11,490	11,040	22,530
Construction	1,137	—	1,137
Commercial	20,181	19,390	39,571
Other real estate	2,475	2,378	4,853
Commercial business	9,505	9,132	18,637
Consumer	1,346	—	1,346
Total loans	$ 168,644	$ 159,646	$ 328,290

	At December 31, 2011 and Due After December 31, 2012		
	Fixed	Floating or Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 135,344	$ 146,622	$ 281,966
Multi-family residential	12,222	13,241	25,463
Construction	4,301	—	4,301
Commercial	19,851	21,505	41,356
Other real estate	2,484	2,692	5,176
Commercial business	7,282	7,888	15,170
Consumer	2,002	—	2,002
Total loans	$ 183,486	$ 191,948	$ 375,434

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, 2012, one- to four-family residential mortgage loans totaled $249.2 million, or 72.6% of our total loan portfolio. At December 31, 2012, our one- to four-family residential loan portfolio consisted of 49% adjustable-rate loans and 51% of 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 residential mortgage loans generally have terms from 10 to 30 years and amortize on a monthly basis with principal and interest due each month. As of December 31, 2012, 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.

No cost 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. During the years ended December 31, 2012 and 2011, we sold $76.9 million and $49.5 million, respectively, in loans, the majority of which was sold servicing retained. We lend up to a maximum loan-to-value ratio of 95% 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%. The first time home buyer program allows up to 95% financing and requires private mortgage insurance. During the years ended December 31, 2012 and 2011, we originated $4.2 million and $5.5 million, respectively in loans under this program. As of December 31, 2012, these loans were performing in accordance with the original terms. 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%. For all adjustable-rate loans, borrowers are qualified at the initial rate and at 2.0% over the initial rate. We do not originate subprime, Alt-A or option ARM residential mortgage loans.

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 periods of declining interest rates, our interest income from adjustable rate loans may be significantly decreased.

During the year ended December 31, 2012, we had new loan originations of $10.2 million in adjustable-rate loans and $113.0 million in fixed-rate loans. During the year ended December 31, 2011, we originated $8.7 million in gross adjustable-rate loans and $60.6 million in gross fixed-rate loans.

Included in residential mortgage loans at December 31, 2012 were $22.8 million of home equity lines of credit and $3.0 million of home equity 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 85% including senior liens on the subject property and with a maximum loan to appraised value of ratio 80% when the senior lien is held elsewhere. We currently offer these loans for terms of up to 10 years, and with adjustable rates that are tied to the prime rate.

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, 2012, our commercial real estate portfolio totaled $47.3 million, or 13.8%, 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.

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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. We offer commercial real estate loans at adjustable-rates and fixed-rates with a term generally not exceeding 25 years.

Multi-Family Loans. At December 31, 2012, $23.9 million, or 7.0%, 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.

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, 2012, construction loans represented $1.2 million, or 0.4%, of Cheviot Savings Bank's total loans. At December 31, 2012, the unadvanced portion of these construction loans totaled $933,000.

Construction loans we originate 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.

Consumer Loans. During 2010, we began offering automobile loans to our customers. In addition, 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. We also acquired $3.4 million of consumer loans in our acquisition of The Franklin Savings and Loan Company, consisting of education and automobile loans. At December 31, 2012, consumer loans totaled $1.7 million, or 0.5%, of total loans.

Commercial Business Loans. We originate commercial business lines of credit and loans, which are secured by non-real estate business assets such as equipment, receivables and inventories. We focus on the origination of commercial business loans in amounts between $50,000 and $250,000. At December 31, 2012, commercial business loans totaled $19.9 million, or 5.8%, or total loans.

Commercial business lending generally involves additional risks compared to one- to four-family residential lending because repayment generally depends on the successful operation of the borrowers' business. 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. Commercial and industrial loans have greater credit risk than one- to four- family residential real estate loans. Our policies limit the amount of loans to a single borrower or group of related borrowers to reduce this risk.

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 increased during 2012 as a result of our effort to emphasize relationship banking.

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. Cheviot Savings Bank obtains property appraisals from independent appraisers on substantially all of its loans.

Our 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, we believe that the underwriting of mortgage loans should be consistent with safe and sound practices to ensure the financial viability of Cheviot Savings 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. Individual officer loan approval authorities are up to $1.0 million in the aggregate for one- to four-family residential real estate loans and $250,000 in the aggregate for secured consumer loans. Generally, all multi-family residential and commercial real estate loans and commercial business loans require approval by at least two members of our loan committee (our four senior lending officers, including our President and Chief Executive Officer) or at least two members of our executive committee (our President and Chief Executive Officer and two outside directors). Other types of loans that exceed individual approval authorities can be approved in amounts up to $1.5 million in the aggregate by at least two members of our executive committee. 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. All loans approved by the loan committee or the executive committee are reviewed by the full board of directors, and the board of directors must approve 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, 2012 was $14.5 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, 2012, the largest aggregate credit exposure to one borrower consisted of one loan totaling $5.0 million. This loan is secured by commercial real estate and was performing in accordance with contractual terms. There were 29 additional credit relationships, including committed amounts, in excess of $1.0 million at December 31, 2012. All of the loans extended under these credit relationships were performing as of December 31, 2012.

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 historical ratios of non-performing loans to total loans being lower than those of our peers. Our originated impaired and non-performing loans totaled $5.7 million, or 2.8% of net originated loans at December 31, 2012, and $5.7 million, or 2.7% of net originated loans at December 31, 2011. We have addressed the consequences of a weakening national and local economy by adhering to our conservative underwriting standards and limiting our exposure on one- to four-family residential investment properties.

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 Collection Resolution Committee 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 consistently observed 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 appropriate level of valuation allowances. Its management and board of directors 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, 2012, we held 25 properties classified as real estate owned totaling $4.0 million and at December 31, 2011, we held 34 properties classified as real estate owned totaling $3.8 million. At December 31, 2012, our three largest real estate properties acquired through foreclosure were a residential home, a land lot and a condominium complex totaling in the aggregate $2.1 million. As a result of the First Franklin Corporation acquisition, we acquired 36 properties classified as real estate owned totaling $2.4 million, net of fair value adjustments. These properties are insured by Cheviot Savings Bank. Cheviot Savings Bank takes actions to ensure that a property does not deteriorate due to neglect while held as real estate owned. New appraisals are ordered at the time Cheviot Savings Bank takes ownership of the property. Updated appraisals may be ordered at future dates depending on the availability of automated estimated value reports, the stability of then-existing market conditions, the continued maintenance of the property and the existence of zoning or environmental changes. We work with preapproved real estate agents to sell the property.

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 of directors on a monthly and quarterly 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 a 95% loan-to-value ratio and all other loans (multi-family, construction, commercial and consumer) on no more than an 85% loan-to-value ratio. We generally stop accruing interest on our one-to four-family residential, construction and commercial loans when interest or principal payments are 90 days in arrears. Consumer loans are comprised of loans secured by deposits, automobile loans and unsecured loans with Cheviot Savings Bank. Such loans are placed on non-accrual status should they become 90 days delinquent. We 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 collectability 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.

	30 to 59 Days Delinquent			60 to 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)					
At December 31, 2012:									
Real Estate Loans:									
One- to four-family residential (1)	$2,617	0.76	%	$1,390	0.41	%	$8,448	2.46	%
Multi-family residential	—	—		—	—		94	0.03	
Construction	—	—		—	—		—	—	
Commercial (2)	—	—		—	—		443	0.13	
Other real estate	693	0.20		547	0.16		477	0.14	
Commercial business	—	—		—	—		1,219	0.36	
Consumer (3)	—	—		—	—		7	—	
Total delinquent loans	$3,310	0.96	%	$1,937	0.57	%	$10,688	3.12	%
At December 31, 2011:									
Real Estate Loans:									
One- to four-family residential (1)	$3,240	0.84	%	$3,281	0.85	%	$10,150	2.64	%
Multi-family residential	—	—		—	—		396	0.10	
Construction	—	—		—	—		—	—	
Commercial (2)	—	—		—	—		477	0.13	
Other real estate	—	—		129	0.03		471	0.12	
Commercial business	641	0.17		67	0.02		615	0.16	
Consumer (3)	—	—		—	—		10	—	
Total delinquent loans	$3,881	1.01	%	$3,477	0.90	%	$12,119	3.15	%
At December 31, 2010:									
Real Estate Loans:									
One- to four-family residential (1)	$588	0.26	%	$429	0.19	%	$4,695	2.08	%
Multi-family residential	—	—		—	—		—	—	
Construction	—	—		—	—		—	—	
Commercial (2)	—	—		46	0.02		160	0.07	
Other real estate	—	—		—	—		—	—	
Commercial business	—	—		—	—		—	—	
Consumer (3)	—	—		—	—		—	—	
Total delinquent loans	$588	0.26	%	$475	0.21	%	$4,855	2.15	%
At December 31, 2009:									
Real Estate Loans:									
One- to four-family residential (1)	$995	0.40	%	$879	0.36	%	$2,229	0.90	%
Multi-family residential	—	—		—	—		—	—	

Construction	—	—		—	—		—	—	
Commercial (2)	47	0.02		—	—		—	—	
Other real estate	—	—		—	—		—	—	
Commercial business	—	—		—	—		217	0.09	
Consumer (3)	—	—		—	—		—	—	
Total delinquent loans	$1,042	0.42	%	$879	0.36	%	$2,446	0.99	%
At December 31, 2008:									
Real Estate Loans:									
One- to four-family residential (1)	$388	0.14	%	$488	0.18	%	$856	0.32	%
Multi-family residential	—	—		—	—		1,194	0.44	
Construction	—	—		—	—		—	—	
Commercial (2)	—	—		436	0.15		—	—	
Other real estate	—	—		—	—		—	—	
Commercial business	—	—		—	—		—	—	
Consumer (3)	—	—		—	—		—	—	
Total delinquent loans	$388	0.14	%	$924	0.33	%	$2,050	0.76	%

(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 for all years and auto loans beginning in 2010.

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Delinquencies decreased in all categories comparing year end 2012 to the same period in 2011. The increase in delinquencies from December 31, 2010 to December 31, 2011 resulted primarily from our acquisition of First Franklin Corporation. As part of the acquisition, we acquired $239,000 in loans that were 30 to 59 days delinquent, $2.8 million in loans that were 60 to 89 days delinquent and $5.8 million in loans that were 90 days or more delinquent. Based on our most recent appraisals of the properties securing these two loans, we believe the collateral value supports the loan balances as of December 31, 2012.

The following tables set forth information regarding impaired and non-performing loans and assets. At December 31, 2012, originated loans and assets consisted of loans and assets of Cheviot Savings Bank, excluding the loans and assets acquired from The Franklin Savings and Loan Company, while purchased loans consisted of loans and assets acquired from The Franklin Savings and Loan Company on March 16, 2011 that remained with us.

		At December 31, 2012 (Dollars in thousands)			At December 31, 2011 (Dollars in thousands)	
Non-accrual and impaired real estate originated loans:						
One- to four-family residential (1)	$	5,002		$	5,311	
Multi-family residential		94			96	
Construction		—			—	
Commercial (2)		620			—	
Other real estate		—			338	
Commercial business		—			—	
Consumer (3)		—			—	
Total non-accruing originated loans		5,716			5,745	
Accruing originated loans delinquent 90 days or more		—			—	
Total non-performing originated loans		5,716			5,745	
Real estate acquired through foreclosure		2,749			2,435	
Total non-performing originated assets	$	8,465		$	8,180	
Non-performing originated assets to total assets		1.34	%		1.33	%
Non-performing originated loans to net originated loans		2.83	%		2.71	%
Non-accrual and impaired real estate purchased loans:						
One- to four-family residential (1)	$	3,446		$	4,839	
Multi-family residential		—			300	
Construction		—			—	
Commercial (2)		1,519			813	
Other real estate		—			97	
Commercial business		—			315	
Consumer (3)		7			10	
Total non-accruing purchased loans		4,972			6,374	
Accruing purchased loans delinquent 90 days or more		—			—	

Total non-performing purchased loans		4,972			6,374	
Real estate acquired through foreclosure		1,231			1,360	
Total non-performing purchased assets	$	6,203		$	7,734	
Non-performing purchased assets to total assets		0.98	%		1.25	%
Non-performing purchased loans to net purchased loans		4.13	%		3.71	%
Non-accrual real estate loans:						
One- to four-family residential (1)	$	8,448		$	10,150	
Multi-family residential		94			396	
Construction		—			—	
Commercial (2)		2,139			813	
Other real estate		—			435	
Commercial business		—			315	
Consumer (3)		7			10	
Total non-accruing loans (4)		10,688			12,119	
Accruing loans delinquent 90 days or more		—			—	
Total non-performing loans		10,688			12,119	
Real estate acquired through foreclosure		3,980			3,795	
Total non-performing assets	$	14,668		$	15,914	
Non-performing assets to total assets		2.32	%		2.58	%
Non-performing loans to net loans		3.14	%		3.15	%

	At December 31, 2010	2009	2008
	(Dollars in thousands)		
Non-accrual real estate loans:			
One- to four-family residential (1)	$ 4,695	$ 2,229	$ 652
Multi-family residential	—	—	1,194
Construction	—	—	—
Commercial (2)	160	—	—
Other real estate	—	—	—
Commercial business	—	217	—
Consumer (3)	—	—	—
Total non-accruing loans (4)	4,855	2,446	1,846
Impaired loans	—	—	—
Accruing loans delinquent 90 days or more	—	—	204
Total non-performing loans	4,855	2,446	2,050
Real estate acquired through foreclosure	2,007	2,048	1,064
Total non-performing assets	$ 6,862	$ 4,494	$ 3,114
Non-performing assets to total assets	1.92 %	1.31 %	0.94 %
Non-performing loans to net loans	2.15 %	0.99 %	0.76 %

(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 for all years and automobile loans beginning in 2010.
(4) For the year ended December 31, 2012 and the year ended December 31, 2011, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to $1.2 million and $954,000, respectively. $964,000 and $303,000 in interest income was recorded on such loans during the year ended December 31, 2012 and the year ended December 31, 2011, respectively.

Non-performing and impaired originated loans totaled $5.7 million at both December 31, 2012 and 2011, respectively. At December 31, 2012, total non-performing and impaired loans including loans purchased totaled $10.7 million.

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 multi-family and commercial loans in amounts greater than $250,000 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.

As of the year ended December 31, 2012, Cheviot Savings Bank had total troubled debt restructurings of $6.0 million. There were 16 one- to four-family residential loans totaling $1.5 million and one commercial loan totaling $754,000 in troubled debt restructurings during the year. During the year ended December 31, 2011, Cheviot Savings Bank had total troubled debt restructurings of $5.4 million. There were 17 one- to four-family residential loans totaling $3.8 million in troubled debt restructurings during the year, with the largest totaling $1.0 million. These loans were modified due to short term concessions with no impairment as Cheviot Savings Bank expects to recognize the full amount of the commitment. Cheviot Savings Bank has no commitments to lend additional funds to these debtors owing receivables whose terms have been modified in troubled debt restructurings.

In addition to troubled debt restructurings, we modify loans to reduce interest rates in the event of reductions in market rates. Except for these interest rate reductions, we do not otherwise modify loans unless such loans are to be classified as troubled debt restructurings.

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 Accounting Standards Codification Topic 310, “Receivables”. The following table sets forth information regarding classified assets as of December 31, 2012, 2011 and 2010.

	At December 31,		
	2012	2011	2010
	(In thousands)		
Classification of Assets:			
Substandard	$ 13,364	$ 14,683	$ 5,211
Doubtful	—	—	—
Loss	—	—	—
Total Classified Assets	$ 13,364	$ 14,683	$ 5,211
Special Mention	$ 108	$ 1,093	$ —

At December 31, 2012, substandard assets were $13.4 million. The assets consisted of ninety-three one- to four-family residential loans with an aggregate principal balance of $9.2 million, sixteen commercial real estate loans with an aggregate principal balance of $3.9 million and ten multi-family residential and consumer loans totaling approximately $214,000. At December 31, 2012, there was one one- to four-family residential loan classified as special mention totaling $108,000.

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 collectability 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. We evaluate our allowance for loan losses quarterly. We have not made any changes to the external factors in the calculation during the year as we believe the local economy has stabilized. We will continue to monitor all items involved in the allowance calculation closely.

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, 2012 and 2011, our allowance for loan losses was $2.2 million and $1.4 million, respectively. Our ratio of the allowance for loan losses as a percentage of originated net loans receivable was 0.81% and 0.68% at December 31, 2012 and 2011, respectively. Applicable accounting guidance requires us to book assets acquired in an acquisition, such as loans, at their fair value, and without the related allowance for loan losses as reflected on the target entity's financial statements.

Following the completion of our acquisition of First Franklin Corporation, we recorded $25.0 million of purchased credit-impaired loans subject to a fair value adjustment of $5.5 million. The method of measuring the carrying value of purchased loans differs from loans that we originate. Accordingly, we identify purchased loans and purchased loans with a credit quality discount at fair value and our own originated loans at amortized cost.

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,				
	2012	2011	2010	2009	2008
	(Dollars in thousands)				
Balance at beginning of period	$1,447	$1,242	$1,025	$709	$596
Charge- offs:					
One- to four-family residential (1)	(537)	(482)	(277)	(537)	(488)
Multi-family residential	—	—	—	—	—
Construction	—	(21)	—	—	—
Commercial (2)	(31)	—	(56)	—	(84)
Other real estate	—	—	—	—	—
Commercial business	—	—	—	—	—
Consumer (3)	—	(5)	—	—	—
Total charge-offs	(568)	(508)	(333)	(537)	(572)
Recoveries:					
One- to four-family residential (1)	—	—	—	—	17
Multi-family residential	—	—	—	—	—
Construction	—	—	—	—	—
Commercial (2)	—	—	—	—	—
Other real estate	—	—	—	—	—
Commercial business	—	—	—	—	—
Consumer (3)	1	13	—	—	—
Total recoveries	1	13	—	—	17
Net charge-offs	(567)	(495)	(333)	(537)	(555)
Provision for losses on loans	1,280	700	550	853	668
Balance at end of period	$2,160	$1,447	$1,242	$1,025	$709
Total loans receivable, net (1)	$340,414	$384,296	$225,438	$247,002	$268,483
Average loans receivable outstanding (1)	$359,940	$367,063	$240,224	$253,302	$260,708
Allowance for loan losses as a percent of originated net loans receivable	0.81%	0.68%	0.55%	0.41%	0.26%
Net loans charged off as a percent of average loans outstanding	0.16%	0.14%	0.14%	0.21%	0.22%

(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 for all years and auto loans beginning in 2010.

The following table sets forth the allocation of the allowance for loan losses by loan category for the periods 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, 2012			At December 31, 2011		
	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)					
Real estate - mortgage						
One- to four-family residential (1)	$1,823	$249,202	72.62 %	$978	$290,808	75.14 %
Multi-family residential	172	23,866	6.96	162	26,210	6.77
Construction	1	1,243	0.36	13	4,390	1.13
Commercial (2)	96	42,148	12.28	191	42,491	10.98
Other real estate	12	5,134	1.50	24	5,311	1.37
Commercial business	45	19,884	5.79	70	15,592	4.03
Consumer (3)	11	1,691	0.49	9	2,210	0.58
Total	$2,160	$343,168	100.00 %	$1,447	$387,012	100.00 %

	At December 31,					
	2010			2009		
	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)					
Real estate - mortgage						
One- to four-family residential (1)	$979	$195,801	84.76 %	$959	$220,714	88.05 %
Multi-family residential	49	8,594	3.72	17	9,114	3.64
Construction	33	7,081	3.06	21	4,868	1.94
Commercial (2)	125	13,422	5.81	20	11,321	4.51
Other real estate	—	—	—	—	—	—
Commercial business	55	5,907	2.56	8	4,604	1.84
Consumer (3)	1	207	0.09	—	51	0.02
Total	$1,242	$231,012	100.00 %	$1,025	$250,672	100.00 %

	At December 31, 2008		
	Allowance for Loan Losses	Loan Balances by Category	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)		
Real estate - mortgage			
One- to four-family residential (1)	$ 604	$ 234,822	86.38 %
Multi-family residential	22	9,385	3.45
Construction	53	11,646	4.28
Commercial (2)	27	14,590	5.37
Other real estate	—	—	—
Commercial business	3	1,352	0.50
Consumer (3)	—	48	0.02
Total	$ 709	$ 271,843	100.00 %

(1) Includes home equity lines of credit, loans purchased and loans held for sale.
(2) Includes loans secured by land.
(3) For all dates, includes loans secured by deposit accounts. Also includes automobile loans beginning December 31, 2010.

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Securities Activities

General. Our investment policy is established by the board of directors. This policy dictates that investment decisions will be made based on the safety of the investment, liquidity requirements, potential returns, cash flow targets, and consistency with our interest rate risk management. The board of directors, as a whole, acts in the capacity of an investment committee and is responsible for overseeing our investment program and evaluating on an ongoing basis our investment policy and objectives. Our president and chief financial officer have the authority to purchase securities within specific guidelines established by the investment policy. All transactions are reviewed by the board of directors at its regular meeting.

We account for investment and mortgage-backed securities in accordance with Accounting Standards Codification Topic 320, "Investments - Debt and Equity Securities." Accounting Standards Codification 320 requires that investments be categorized as held-to maturity, trading, or available for sale. Securities classified as held to maturity are carried at cost only if we have the positive intent and ability to hold these securities to maturity. Trading securities and securities available for sale are carried at fair value with resulting unrealized gains or losses recorded to operations or shareholders' equity, respectively. During 2012, we purchased $211.2 million of investment securities that were classified as available for sale. During 2011, we purchased $89.3 million of investment securities that were classified as available for sale and acquired $20.1 million of securities as part of our acquisition of First Franklin Corporation that we classified as available for sale. Specifically, in our acquisition of First Franklin Corporation, we acquired $3.0 million of fixed-rate mortgage-backed securities, $1.5 million of adjustable-rate mortgage-backed securities, $1.6 million of municipal obligations and $14.0 million of investment securities. All other investment and mortgage-backed securities purchases have been classified as held-to-maturity. Realized gains or losses on sales of securities are recognized using the specific identification method.

Our current policies generally limit securities investments to U.S. Government, agency and sponsored entity securities and municipal bonds. The policy also permits investments in mortgage-backed securities guaranteed by the Fannie Mae, Freddie Mac and Ginnie Mae. Our investments in municipal obligations mature in more than five years. The majority of our investments in U.S. Government and agency obligations are scheduled to mature within fifteen years.

Our current investment strategy uses a risk management approach of diversified investing in fixed-rate securities with short- to intermediate-term maturities, as well as adjustable-rate securities, which may have a longer term to maturity. The emphasis of this approach is to increase overall securities yields while managing interest rate risk. To accomplish these objectives, we focus on investments in mortgage-backed securities with short term maturities, and U.S. government and agency obligations and municipal obligations with maturities in excess of 10 years. We monitor our investment portfolio for losses that may be considered other than temporary. At December 31, 2012 and December 31, 2011, all unrealized losses on securities are viewed by management to be temporary. At December 31, 2012, the amortized cost of our investment and mortgage-backed securities portfolio was $204.7 million, while the estimated fair value was $205.8 million. At December 31, 2011, the amortized cost of our investment and mortgage-backed securities portfolio was $132.2 million, while the estimated fair value was $132.8 million.

Amortized Cost and Estimated Fair Value of Securities. The following table sets forth certain information regarding the amortized cost and estimated fair values of our securities as of the dates indicated.

	At December 31,					
	2012		2011		2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
			(In thousands)			
Investment securities held to maturity:						
U.S. Government and agency securities	$—	$—	$—	$—	$—	$—
Municipal obligations	—	—	—	—	—	—
Total investment securities held to maturity	—	—	—	—	—	—
Mortgage-backed securities held to maturity:						
Freddie Mac	318	324	382	388	464	473
Fannie Mae	296	305	410	417	515	522
Ginnie Mae	2,967	3,143	3,375	3,510	3,800	3,921
Total mortgage-backed securities held to maturity	3,581	3,772	4,167	4,315	4,779	4,916
Total investments and mortgage-backed securities held to maturity	3,581	3,772	4,167	4,315	4,779	4,916
Investment securities available for sale:						
U.S. Government and agency securities	192,247	192,705	117,731	117,871	88,529	87,009
Municipal obligations	3,037	3,258	3,039	3,171	1,545	1,373
Total investment securities available for sale	195,284	195,963	120,770	121,042	90,074	88,382
Mortgage-backed securities available for sale:						
Freddie Mac	925	1,053	1,137	1,180	723	736
Fannie Mae	1,738	1,783	2,624	2,666	548	565
Ginnie Mae	3,136	3,193	3,548	3,613	2,908	2,978
Total mortgage-backed securities available for sale	5,799	6,029	7,309	7,459	4,179	4,279
Total investment and mortgage-backed securities available for sale	201,083	201,992	128,079	128,501	94,253	92,661
Total investment and mortgage-backed securities	$204,664	$205,764	$132,246	$132,816	$99,032	$97,577

The following table sets forth certain information regarding the carrying value, weighted average yields and contractual maturities of our securities portfolio as of December 31, 2012. Adjustable-rate mortgage-backed securities are included in the period in which interest rates are next scheduled to adjust.

	At December 31, 2012										
	One Year or Less		More Than One Year through Five Years		More Than Five Years through Ten Years		More Than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Investment securities held to maturity:											
U.S. Government and agency obligations	$—	— %	$—	— %	$—	— %	$—	— %	$—	$—	— %
Municipal obligations	—	—	—	—	—	—	—	—	—	—	—
Total investment securities held to maturity	—	—	—	—	—	—	—	—	—	—	—
Mortgage-backed securities held to maturity:											
Freddie Mac	318	2.54	—	—	—	—	—	—	318	324	2.54
Fannie Mae	296	2.24	—	—	—	—	—	—	296	305	2.24
Ginnie Mae	2,967	1.86	—	—	—	—	—	—	2,967	3,143	1.86
Total mortgage backed securities held to maturity	3,581	2.03	—	—	—	—	—	—	3,581	3,772	2.03
Investment securities available for sale:	—	—	—	—	—	—	—	—	—	—	—
U.S. Government and agency obligations	145,210	1.76	27,058	1.79	9,993	2.01	9,986	1.76	192,247	192,705	1.78
Municipal obligations	—	—	1,140	4.08	1,182	4.28	715	4.35	3,037	3,258	4.22
Total investment securities available for sale	145,210	1.76	28,198	1.88	11,175	2.25	10,701	1.93	195,284	195,963	1.81
Mortgage-backed securities available for sale:											

Freddie Mac	925	3.15	—	—	—	—	—	—	925	1,053	3.15
Fannie Mae	1,738	2.53	—	—	—	—	—	—	1,738	1,783	2.53
Ginnie Mae	3,136	1.59	—	—	—	—	—	—	3,136	3,193	1.59
Total mortgage backed securities available for sale	5,799	1.98	—	—	—	—	—	—	5,799	6,029	1.98
Total investment and mortgage-backed securities	$154,590	2.01%	$28,198	1.88%	$11,175	2.25%	$10,701	1.93%	$204,664	$205,764	1.82%

Sources of Funds.

General. Deposits, Federal Home Loan Bank advances, scheduled amortization and prepayments of loan principal, maturities and calls of securities and funds provided by operations are our primary sources of funds for use in lending, investing and for other general purposes.

Deposits. We offer deposit products having a range of interest rates and terms. We currently offer passbook and statement savings accounts, interest-bearing demand accounts, non-interest-bearing demand accounts, money market accounts and certificates of deposit.

Deposit flows are significantly influenced by general and local economic conditions, changes in prevailing interest rates, internal pricing decisions and competition. Our deposits are primarily obtained from areas surrounding our branch offices. In order to attract and retain deposits we rely on paying competitive interest rates and providing quality service.

Savings, NOW and money market rates are generally determined monthly by our Preisdnet nd Chief Executive Officer. Certificate of deposit rates are generally determined weekly by our President and Chief Executive Officer. When we determine our deposit rates, we consider liquidity needs, local competition, Federal Home Loan Bank advance rates and rates charged on other sources of funds. Core deposits, defined as savings accounts, money market accounts and demand deposit accounts, represented 47.7%, 43.8% and 45.1% of total deposits at December 31, 2012, December 31, 2011 and 2010, respectively. At December 31, 2012, December 31, 2011 and 2010, certificates of deposit with remaining terms to maturity of less than one year amounted to $124.4 million, $129.7 million and $94.5 million, respectively.

In our acquisition of First Franklin Corporation, we assumed deposits of approximately $218.8 million, net of fair value adjustments. Deposits assumed included savings deposits totaling approximately $77.7 million and time deposits of approximately $141.1 million, with an overall average rate of 1.90%.

The following tables set forth the types of deposit accounts offered by us at the dates indicated.

	At December 31, 2012					At December 31, 2011				
	Amount	Percent		Weighted Average Rate		Amount	Percent		Weighted Average Rate	
	(Dollars in thousands)									
NOW accounts	$83,346	16.99	%	0.09	%	$76,170	15.47	%	0.28	%
Passbook accounts	33,712	6.87		0.01		33,388	6.78		0.15	
Money market demand deposits	116,891	23.82		0.25		106,098	21.55		0.50	
Total demand, transaction and passbook deposits	233,949	47.68		0.16		215,656	43.80		0.37	
Certificates of deposit										
Due within one year	124,389	25.35		1.10		129,706	26.35		1.31	
Over one year through three years	86,818	17.69		2.26		78,459	15.94		2.35	
Over three years	45,490	9.28		2.02		68,500	13.91		2.59	
Total certificates of deposit	256,697	52.32		1.66		276,665	56.20		1.92	
Total	$490,646	100.00	%	0.94	%	$492,321	100.00	%	1.24	%

	At December 31, 2010		
	Amount	Percent	Weighted Average Rate