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

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

(Mark One)

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

For the quarterly period ended September 30, 2013

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. 0-50529

CHEVIOT FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Maryland	90-0789920
(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 x No o

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 o Accelerated filer o Non-accelerated filer o

Small business issuer x

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

Yes o No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Cash and due from banks	$9,844	$10,251
Federal funds sold	1,353	12,555
Interest-earning deposits in other financial institutions	4,676	2,308
Cash and cash equivalents	15,873	25,114
Investment securities available for sale – at fair value	164,483	195,963
Mortgage-backed securities available for sale - at fair value	9,792	6,029
Mortgage-backed securities held to maturity - at cost, approximate market value of $3,345 and $3,772 at September 30, 2013 and December 31, 2012, respectively	3,221	3,581
Loans receivable - net	335,970	337,110
Loans held for sale - at lower of cost or market	1,078	3,304
Real estate acquired through foreclosure - net	4,226	3,980
Office premises and equipment - at depreciated cost	11,697	12,481
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,209	1,303
Accrued interest receivable on mortgage-backed securities	25	20
Accrued interest receivable on investments and interest-earning deposits	511	941
Goodwill	10,309	10,309
Core deposit intangible	587	746
Prepaid expenses and other assets	3,422	4,596
Bank-owned life insurance	15,612	15,249
Prepaid federal income taxes	1,433	1,192
Deferred federal income taxes	3,642	1,413
Total assets	$591,741	$631,982
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$471,493	$490,646
Advances from the Federal Home Loan Bank	20,108	24,314
Advances by borrowers for taxes and insurance	1,671	2,331
Accrued interest payable	75	90
Accounts payable and other liabilities	5,262	6,701
Total liabilities	498,609	524,082

Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued		
Common stock - authorized 30,000,000 shares, $.01 par value; 6,836,903 and 7,596,557 shares issued at September 30, 2013 and December 31, 2012	76	76
Additional paid-in capital	57,232	65,772
Shares acquired by stock benefit plans	(1,955)	(1,992)
Retained earnings - restricted	42,624	43,444
Accumulated comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net of related tax expense (benefit)	(4,845)	600
Total shareholders' equity	93,132	107,900
Total liabilities and shareholders' equity	$591,741	$631,982

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
Interest income				
Loans	$11,840	$13,824	$3,822	$4,405
Mortgage-backed securities	136	158	54	49
Investment securities	2,357	2,124	712	811
Interest-earning deposits and other	290	291	94	103
Total interest income	14,623	16,397	4,682	5,368
Interest expense				
Deposits	2,780	3,621	894	1,143
Borrowings	548	709	171	220
Total interest expense	3,328	4,330	1,065	1,363
Net interest income	11,295	12,067	3,617	4,005
Provision for losses on loans	925	990	585	590
Net interest income after provision for losses on loans	10,370	11,077	3,032	3,415
Other income				
Rental	97	101	24	29
Gain (loss) on sale of real estate acquired through foreclosure	36	60	(32)	21
Loss on sale of office premises and equipment	(255)	-	-	-
Gain on sale of loans	434	1,144	9	592
Earnings on bank-owned life insurance	362	229	121	84
Gain on death benefits from life insurance	-	492	-	-
Service fee income	1,125	1,197	388	403
Other operating	200	67	1	7
Total other income	1,999	3,290	511	1,136
General, administrative and other expense				
Employee compensation and benefits	4,760	4,745	1,437	1,590
Occupancy and equipment	1,236	1,278	405	426
Property, payroll and other taxes	1,058	1,063	331	421
Data processing	452	474	153	164
Legal and professional	660	656	167	262
Advertising	225	225	75	75

FDIC expense	338	326	120	98
ATM processing expense	289	273	104	91
Real estate owned impairment	448	522	192	353
Core deposit intangible amortization	159	217	47	65
Other operating	1,336	1,109	547	313
Total general, administrative and other expense	10,961	10,888	3,578	3,858
Earnings (loss) before income taxes	1,408	3,479	(35)	693
Federal income taxes (benefit)				
Current	(246)	522	(138)	265
Deferred	577	368	82	(71)
Total federal income taxes	331	890	(56)	194
NET EARNINGS	$1,077	$2,589	$21	$499
EARNINGS PER SHARE				
Basic	$.15	$.35	$.00	$.07
Diluted	$.15	$.35	$.00	$.07
Dividends per common share	$.27	$.24	$.09	$.08

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

For the nine and three months ended September 30, 2013 and 2012
(In thousands)

	For the nine months ended September 30,		For the three months ended September 30,	
	2013	2012	2013	2012
Net earnings for the period	$1,077	$2,589	$21	$499
Other comprehensive income (loss), net of tax expense:				
Unrealized holding (losses) gains on securities during the period, net of tax (benefits) expense of $(2,805) and $213 for the nine months ended September 30, 2013 and 2012, respectively, and $8 and $79 for the three months ended September 30, 2013 and 2012, respectively	(5,445)	413	16	154
Comprehensive (loss) income	$(4,368)	$3,002	$37	$653
Accumulated comprehensive (loss) income	$(4,845)	$691	$(4,845)	$691

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the nine months ended September 30, 2013 and 2012
(In thousands)

	2013	2012
Cash flows from operating activities:		
Net earnings for the period	$1,077	$2,589
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	(20)	10
Depreciation	573	569
Charitable donation of real estate owned property	32	-
Amortization of deferred loan origination costs - net	(27)	33
Amortization of intangible assets	159	217
Amortization of fair value adjustments	(605)	(667)
Proceeds from sale of loans in the secondary market	33,258	55,185
Loans originated for sale in the secondary market	(36,953)	(55,883)
Gain on sale of loans	(434)	(1,144)
Gain on sale of real estate acquired through foreclosure	(36)	(60)
Impairment on real estate acquired through foreclosure	448	523
Loss on sale of office premises and equipment	255	-
Net increase in cash surrender value of bank-owned life insurance	(363)	(229)
Amortization of expense related to stock benefit plans	40	(8)
Provision for losses on loans	925	990
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	94	208
Accrued interest receivable on mortgage-backed securities	(5)	5
Accrued interest receivable on investments and interest earning deposits	430	(40)
Prepaid expenses and other assets	1,174	1,088
Accrued interest payable	(15)	(10)
Accounts payable and other liabilities	(1,505)	(606)
Federal income taxes		
Current	(241)	328
Deferred	577	368
Net cash provided by (used in) operating activities	(1,162)	3,466
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	53,292	72,697
Loan disbursements	(48,850)	(31,143)
Purchase of investment securities – available for sale	(80,928)	(193,192)
Proceeds from maturity of investment securities – available for sale	106,175	121,300
Purchase of corporate securities	(1,920)	-
Purchase of mortgage-backed securities – available for sale	(4,977)	-

Principal repayments on mortgage-backed securities – available for sale	1,136	1,097
Principal repayments on mortgage-backed securities – held to maturity	360	437
Proceeds from sale of real estate acquired through foreclosure	1,662	1,870
Additions to real estate acquired through foreclosure	(7)	-
Proceeds from sale of office premises and equipment	1,167	-
Purchase of office premises and equipment	(1,211)	(1,807)
Purchase of Federal Home Loan Bank stock	-	(285)
Proceeds from bank-owned life insurance	-	403
Net cash provided by (used in) investing activities	25,899	(28,623)
Net cash provided by (used in) operating and investing activities	24,737	(25,157)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED) (UNAUDITED)

For the nine months ended September 30, 2013 and 2012
(In thousands)

	2013	2012
Net cash provided by (used in) operating and investing activities brought forward	24,737	(25,157)
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposits	(18,736)	3,196
Repayments on Federal Home Loan Bank advances	(4,142)	(5,858)
Advances by borrowers for taxes and insurance	(660)	(795)
Proceeds from stock conversion	-	22,133
Shares acquired by stock benefit plans	-	(1,496)
Stock option expense, net	17	16
Common stock repurchased	(8,560)	-
Dividends paid on common stock	(1,897)	(1,822)
Net cash provided by (used in) financing activities	(33,978)	15,374
Net increase (decrease) in cash and cash equivalents	(9,241)	(9,783)
Cash and cash equivalents at beginning of period	25,114	45,140
Cash and cash equivalents at end of period	$15,873	$35,357

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the Nine months ended September 30, 2013 and 2012
(In thousands)

	2013	2012
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$-	$52
Interest on deposits and borrowings	$3,343	$4,340
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$2,352	$2,270
Recognition of mortgage servicing rights	$242	$416
Deferred gain on real estate acquired through foreclosure	$7	$13

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2013 and 2012

1. Basis of Presentation

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

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

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

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

2. Principles of Consolidation

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

3. Liquidity and Capital Resources

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

30, 2013 and December 31, 2012, the Corporation had $20.1 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 $122.6 million and $136.6 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September, 2013 and 2012

3. Liquidity and Capital Resources (continued)

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

The Corporation’s primary investing activities are the origination of one- to four-family real estate loans, commercial real estate, construction and consumer loans, and the purchase of securities. For the nine months ended September 30, 2013, loan originations totaled $85.8 million, compared to $87.0 million for the nine months ended September 30, 2012.

Total deposits decreased $19.2 million during the nine months ended September 30, 2013, while total deposits increased $2.6 million, net of fair value adjustments on time deposits, during the nine months ended September 30, 2012. Deposit flows are affected by the level of interest rates, the interest rates and products offered by competitors and other factors.

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

	Payments due by period				
	Less than 1 year	More than 1-3 years	More than 4-5 years	More than 5 years	Total
	(In thousands)				
Contractual obligations:					
Advances from the Federal Home Loan Bank	$1,161	$2,290	$13,266	$3,391	$20,108
Certificates of deposit	115,807	92,079	27,563	-	235,449
Lease obligations	150	114	116	219	599
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	1,877	-	-	-	1,877
Home equity lines of credit	28,171	-	-	-	28,171
Commercial lines of credit	1,277	-	-	-	1,277
Undisbursed loans in process	2,913	-	-	-	2,913
Total contractual obligations	$151,356	$94,483	$40,945	$3,610	$290,394

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

At September 30, 2013 and 2012, we exceeded all applicable regulatory capital requirements. Core (Tier 1) capital was $77.9 million and $78.2 million, or 13.5% and 12.6% of total assets at September 30, 2013 and 2012, respectively. In order to be classified as "well-capitalized" under federal banking regulations, the Corporation was required to have core capital of at least $35.7 million, or 6.0% of assets as of September 30, 2013. To be classified as a well-capitalized bank, the Corporation must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At September 30, 2013 and 2012, the Corporation had a total risk-based capital ratio of 25.5% and 26.3%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

4. Earnings Per Share

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

	For the nine months ended September 30,		For the three months ended September 30,	
	2013	2012	2013	2012
Weighted-average common shares outstanding (basic)	6,942,409	7,438,013	6,628,648	7,348,351
Dilutive effect of assumed exercise of stock options	6,798	6,947	6,819	6,695
Weighted-average common shares outstanding (diluted)	6,949,207	7,444,960	6,635,467	7,355,046

5. Stock Option Plan

The Corporation provides a Stock Incentive Plan that provides for grants of up to 416,517 stock options. During 2012 and 2011 approximately 5,600 and 3,771 stock options were granted subject to a five year vesting period in which the options granted will vest ratably annually. For the nine months ended September 30, 2013, no shares have been granted. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857 for the second step conversion that occurred in 2012.

On April 23, 2013, shareholders of the Corporation approved the 2013 Equity Incentive Plan. The Plan provides for grants of up to 467,500 stock options. As of the date of the report, no grants or option awards have been made under the 2013 Equity Incentive Plan.

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 nine months ended September 30, 2013, the Corporation recorded $17,000 in after-tax compensation cost for equity-based awards that vested during the nine months ended September 30, 2013. The Corporation has $36,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2013, which is expected to be recognized over a weighted-average vesting period of approximately 2.1 months.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2013 and the year ended December 31, 2012 as well as the changes during the period then ended are presented below:

	Nine months ended September 30, 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	359,177	$12.91	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 September 30, 2013:

Number outstanding	369,939
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.91
Weighted-average remaining contractual life	2.1 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.

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 nine months ended September 30, 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 September 30, 2013 and December 31, 2012 are shown below.

	September 30, 2013			
	Amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for Sale:				
U.S. Government agency securities	$ 167,050	$ 16	$ 8,045	$ 159,021
Municipal obligations	3,035	97	94	3,038
Corporate securities	1,920	504	-	2,424
	$ 172,005	$ 617	$ 8,139	$ 164,483

	December 31, 2012			
	Amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available for Sale:				
U.S. Government agency securities	$ 192,247	$ 550	$ 92	$ 192,705
Municipal obligations	3,037	222	1	3,258
	$ 195,284	$ 772	$ 93	$ 195,963

Unrealized gains and losses on investments and mortgage backed securities, net of taxes, are shown on the Corporation's consolidated financial statements as an adjustment to shareholders' equity.

The amortized cost of investment securities at September 30, 2013, by contractual term to maturity, are shown below.

	September 30, 2013 (In thousands)
Less than one year	$5,000
One to five years	41,060

Five to ten years	65,752
More than ten years	58,273
	170,085
Corporate securities	1,920
	$172,005

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgage-backed securities at September 30, 2013 and December 31, 2012 are shown below.

	September 30, 2013			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$706	$23	$1	$728
Federal National Mortgage Association adjustable-rate participation certificates	6,179	65	1	6,243
Government National Mortgage Association adjustable-rate participation certificates	2,727	94	-	2,821
	$9,612	$182	$2	$9,792
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$268	$9	$1	$276
Federal National Mortgage Association adjustable-rate participation certificates	230	5	-	235
Government National Mortgage Association adjustable-rate participation certificates	2,723	111	-	2,834
	$3,221	$125	$1	$3,345

	December 31, 2012			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for sale:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$925	$129	$1	$1,053

Federal National Mortgage Association adjustable-rate participation certificates	1,738	46	1	1,783
Government National Mortgage Association adjustable-rate participation certificates	3,136	57	-	3,193
	$5,799	$232	$2	$6,029

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2012			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$318	$7	$1	$324
Federal National Mortgage Association adjustable-rate participation certificates	296	9	-	305
Government National Mortgage Association adjustable-rate participation certificates	2,967	176	-	3,143
	$3,581	$192	$1	$3,772

The amortized cost of mortgage-backed securities, including those designated as available for sale, at September 30, 2013, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	September 30, 2013 (In thousands)
Due in one year or less	$844
Due in one year through five years	3,462
Due in five years through ten years	4,738
Due in more than ten years	3,789
	$12,833

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at September 30, 2013:

Description of securities	Less than 12 months Number of	Fair value	Unrealized losses	12 months or longer Number of	Fair value	Unrealized losses	Total Number of	Fair value	Unrealized losses

	investments (Dollars in thousands)			investments			investments		
U.S. Government agency securities	24	$135,289	$ 6,785	4	$16,723	$ 1,260	28	$152,012	$ 8,045
Municipal obligations	1	185	1	1	621	93	2	806	94
Corporate stocks	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	8	56	1	9	119	2	17	175	3
Total temporarily impaired securities	33	$135,530	$ 6,787	14	$17,463	$ 1,355	47	$152,993	$ 8,142

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

6. Investment and Mortgage-backed Securities (continued)

Management does not intend to sell any of the debt securities with an unrealized loss and does not believe that it is more likely than not that the Corporation will be required to sell a security in an unrealized loss position prior to a recovery in value. The decline in the fair value is primarily due to an increase in market interest rates. The fair values are expected to recover as securities approach maturity dates. The Corporation has evaluated these securities and has determined that the decline in their values is temporary.

7. Income Taxes

The Corporation uses an asset and liability approach to accounting for income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are recognized if it is more likely than not that a future benefit will be realized. The Corporation accounts for income taxes in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Income Taxes, which prescribes the recognition and measurement criteria related to tax positions taken or expected to be taken in a tax return.

The Corporation's principal temporary differences between financial income and taxable income result mainly from different methods of accounting for Federal Home Loan Bank stock dividends, the general loan loss allowance, deferred compensation, stock benefit plans and fair value adjustments arising from the First Franklin acquisition. The Corporation has approximately $3.5 million of net operating losses to carryforward for the next 20 years. These losses are subject to the Internal Revenue Code section 382 limitations which allow approximately $1.1 million of the losses on an annual basis to offset current year taxable income.

The Corporation recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At adoption date, January 1, 2007 the Corporation applied the standard to all tax positions for which the statute of limitations remained open and was not required to record any liability for unrecognized tax benefits as that date. There have been no material changes in unrecognized tax benefits since January 1, 2007. The known tax attributes which can influence the Corporation's effective tax rate is the utilization of net operating loss carryforwards subject to the limitations under Internal Revenue Code section 382.

The Corporation is subject to income taxes in the U.S. federal jurisdiction, as well as various state jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Corporation is no longer subject to U.S. federal, state and local, or non U.S. income tax examinations by tax authorities for the years before 2010.

The Corporation will recognize, if applicable, interest accrued related to unrecognized tax liabilities in interest expense and penalties in operating expenses.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

7. Income Taxes (continued)

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the periods ended September 30, 2013 and 2012:

	2013	2012
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$479	$1,183
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	8	(24)
Nontaxable interest income	(29)	(29)
Cash surrender value of life insurance	(123)	(245)
Other	(4)	5
Federal income taxes per financial statements	$331	$890
Effective tax rate	23.5%	25.6%

8. Disclosures About Fair Value of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability.

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair value methods and assumptions are set forth below for each type of financial instrument.

Securities available for sale: Fair values of available for sale securities are based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from a custodian, using observable inputs from third party data service providers. Available for sale securities includes U.S. agency securities, municipal bonds and mortgage-backed agency securities.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

8. Disclosures About Fair Value of Assets and Liabilities (continued)

Fair Value Measurements at September 30, 2013 and December 31, 2012

	Quoted prices in active markets for identical assets (Level 1) (In thousands)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
Securities available for sale at September 30, 2013:			
U.S. Government agency securities	-	$159,021	-
Municipal obligations	-	$3,038	-
Corporate securities	-	$2,424	-
Mortgage-backed securities	-	$9,792	-
Securities available for sale at December 31, 2012:			
U.S. Government agency securities	-	$192,705	-
Municipal obligations	-	$3,258	-
Mortgage-backed securities	-	$6,029	-

The Corporation is predominately an asset-based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. In addition, on the acquisition date the Corporation independently fair valued $25.0 million of First Franklin’s impaired loans, as well as $173.2 million of performing loans. First Franklin’s impaired loans subject to fair value write-downs are not included in Cheviot Financial’s non-performing loan totals. Such loans are considered performing under Topic ASC 310-30, even though the loans are contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and the resulting loss provisions or future period yield adjustments. The fair values were obtained using independent appraisals, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of the Corporation’s impaired originated loans was approximately $3.5 million and $5.7 million at September 30, 2013 and December 31, 2012, respectively.

The Corporation has real estate acquired through foreclosure totaling $4.2 million and $4.0 million at September 30, 2013 and December 31, 2012, respectively. Real estate acquired through foreclosure is carried at the lower of the cost or fair value less estimated selling expenses at the date of acquisition. Fair values are obtained using independent appraisals, based on comparable sales which the Corporation considers to be Level 2 inputs. At September 30, 2013 all real estate acquired through foreclosure was carried at fair value.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended September 30, 2013 and 2012

8. Disclosures About Fair Value of Assets and Liabilities (continued)

The following table presents fair value measurements for the Company's financial instruments which are not recognized at fair value in the accompanying statements of financial position on a recurring or nonrecurring basis.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
September 30, 2013:				
Financial assets:				
Cash and cash equivalents	$15,873	$ 15,873	$—	$ —
Investment securities	164,483	—	164,483	—
Mortgage-backed securities	13,013	—	13,013	—
Loans receivable - net	337,048	—	337,048	—
Federal Home Loan Bank stock	8,651	—	8,651	—
Accrued interest receivable	1,745	—	1,745	—
Financial liabilities:				
Deposits	471,493	—	471,493	—
Advances from the Federal Home Loan Bank	20,108	—	20,108	—
Advances by borrowers for taxes and insurance	1,671	—	1,671	—
Accrued interest payable	75	—	75	—
December 31, 2012:				
Financial assets:				
Cash and cash equivalents	$25,114	$ 25,114	$—	$ —
Investment securities	195,963	—	195,963	—
Mortgage-backed securities	9,610	—	9,610	—
Loans receivable - net	304,414	—	340,414	—
Federal Home Loan Bank stock	8,651	—	8,651	—
Accrued interest receivable	2,264	—	2,264	—
Financial liabilities:				
Deposits	490,646	—	490,646	—
Advances from the Federal Home Loan Bank	24,314			