

Cheviot Financial Corp.
Form 10-K
March 11, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2013
OR
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File No. 001-35399

Cheviot Financial Corp.

(Exact name of registrant as specified in its charter)

Maryland 90-0789920
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

3723 Glenmore Avenue, Cheviot, Ohio 45211
(Address of Principal Executive Offices) 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 The Nasdaq Stock Market, LLC
(Title of Class) (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 NO

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 NO

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of

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the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the Registrant 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 NO

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.

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

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, 2013 was \$70.5 million.

As of February 25, 2014, there was issued and outstanding 6,818,703 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

- (1) Proxy Statement for the 2014 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 include, 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, 2013, we had consolidated assets of \$587.1 million, deposits of \$469.4 million and shareholders’ equity \$90.9 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, 2013, the Bank’s tangible core and risk-based capital ratios were 13.5%, 13.5% and 25.3%, respectively 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 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 \$336.8 million at December 31, 2013 from \$340.4 million at December 31, 2012.

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.

	2013		At December 31,				2011		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
	(Dollars in thousands)								
Real estate loans:									
One- to four-family residential									
(1)	\$236,236	69.23	%	\$249,202	72.62	%	\$290,808	75.14	%
Multi-family residential	22,805	6.68		23,866	6.96		26,210	6.77	
Construction	7,141	2.09		1,243	0.36		4,390	1.13	
Commercial (2)	47,450	13.91		42,148	12.28		42,491	10.98	
Other real estate	4,726	1.39		5,134	1.50		5,311	1.37	
Commercial business	20,579	6.03		19,884	5.79		15,592	4.03	
Consumer (3)	2,278	0.67		1,691	0.49		2,210	0.58	
Total loans	341,215	100.00	%	343,168	100.00	%	387,012	100.00	%
Less:									
Undisbursed portion of loans in process	3,157			933			1,478		
Deferred loan origination fees	(476))		(339))		(209))	
Allowance for loan losses	1,697			2,160			1,447		
Total loans, net	\$336,837			\$340,414			\$384,296		

	2010		At December 31,				2009	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real estate loans:								
One- to four-family residential (1)								
	\$ 195,801	84.76	%	\$ 220,714	88.05	%		
M u l t i - f a m i l y residential	8,594	3.72		9,114	3.64			
Construction	7,081	3.06		4,868	1.94			
Commercial (2)	13,422	5.81		11,321	4.51			
Other real estate	—	—		—	—			
Commercial business	5,907	2.56		4,604	1.84			
Consumer (3)	207	0.09		51	0.02			
Total loans	231,012	100.00	%	250,672	100.00	%		
Less:								
Undisbursed portion of loans in process	4,482			2,696				

Deferred loan origination fees	(150)	(51)
Allowance for loan losses	1,242	1,025
Total loans, net	\$ 225,438	\$ 247,002

- (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, 2013 and December 31, 2012, 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, 2013

	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	\$9,743	\$20,763	\$22,592	\$65,568	\$104,338	\$13,232	\$236,236
M u l t i - f a m i l y residential	1,634	3,561	3,990	12,199	1,421	—	22,805
Construction	471	1,008	1,104	3,239	1,319	—	7,141
Commercial	3,232	7,040	7,883	24,091	5,204	—	47,450
Other real estate	285	630	717	2,260	834	—	4,726
C o m m e r c i a l business	1,653	3,583	3,986	11,357	—	—	20,579
Consumer	141	308	347	1,071	411	—	2,278
Total loans	\$17,159	\$36,893	\$40,619	\$119,785	\$113,527	\$13,232	\$341,215

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
M u l t i - f a m i l y 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
C o m m e r c i a l 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

Fixed and Adjustable-Rate Loan Schedule. The following tables set forth at December 31, 2013 and December 31, 2012, the dollar amount of all fixed-rate and adjustable-rate loans and home equity lines of credit due after December 31, 2014 and December 31, 2013, respectively.

	At December 31, 2013 and Due After December 31, 2014		
	Fixed	Floating or Adjustable (In thousands)	Total
Real estate loans:			
One- to four-family residential	\$ 127,969	\$ 98,524	\$ 226,493
M u l t i - f a m i l y residential	11,962	9,209	21,171
Construction	4,796	1,874	6,670
Commercial	24,293	19,925	44,218
Other real estate	2,509	1,932	4,441
Commercial business	10,693	8,233	18,926
Consumer	2,137	—	2,137
Total loans	\$ 184,359	\$ 139,697	\$ 324,056

	At December 31, 2012 and Due After December 31, 2013		
	Fixed	Floating or Adjustable (In thousands)	Total
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

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, 2013, one- to four-family residential mortgage loans totaled \$236.2 million, or 69.2% of our total loan portfolio. At December 31, 2013, our one- to four-family residential loan portfolio consisted of 46.4% adjustable-rate loans and 56.6% 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, 2013, 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;

Short-term (bridge) loans; and

No cost loans.

