

Cheviot Financial Corp.
Form 10-K
March 14, 2012

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, 2011
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
(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 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 January 18, 2012 (the first day the Registrant's shares were publicly traded) was \$62.7 million.

As of February 29, 2012, there was issued and outstanding 7,596,896 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE:

- (1) Proxy Statement for the 2012 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.

Recent Developments

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 now has 7,596,896 shares outstanding.

General

Cheviot Financial Corp.

Cheviot Financial Corp. is a newly formed Maryland corporation and 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, 2011, our predecessor Cheviot Financial Corp., a federal corporation, holding company had consolidated assets of \$616.3 million, deposits of \$492.3 million and shareholder’s equity \$72.9 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, 2011, the Bank’s tangible core and risk-based capital ratios were 9.95%, 9.95% and 18.80%, 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 the entire city and 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. The State of 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 2000 (\$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 increased to \$384.3 million at December 31, 2011 from \$225.4 million at December 31, 2010, reflecting our acquiring \$196.5 million of net loans in our acquisition of First Franklin Corporation and The Franklin Savings and Loan Company.

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.

	2011		At December 31,				2009		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
	(Dollars in thousands)								
Real estate loans:									
One- to four-family residential									
(1)	\$290,808	75.14	%	\$195,801	84.76	%	\$220,714	88.05	%
Multi-family residential	26,210	6.77		8,594	3.72		9,114	3.64	
Construction	4,390	1.13		7,081	3.06		4,868	1.94	
Commercial (2)	42,491	10.98		13,422	5.81		11,321	4.51	
Other real estate	5,311	1.37		—	—		—	—	
Commercial business	15,592	4.03		5,907	2.56		4,604	1.84	
Consumer (3)	2,210	0.58		207	0.09		51	0.02	
Total loans	387,012	100.00	%	231,012	100.00	%	250,672	100.00	%
Less:									
Undisbursed portion of loans in process	1,478								