Cheviot Financial Corp.
Form 10-Q
August 12, 2014

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 June 30, 2014

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, a non-accelerated filer, or a smaller reporting company. See definition 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

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 August 12, 2014, the latest practicable date, 6,707,803 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)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	$ 13,124	$ 14,129
Federal funds sold	17,516	3,340
Interest-earning deposits in other financial institutions	8,417	4,643
Cash and cash equivalents	39,057	22,112
Investment securities available for sale – at fair value	144,123	153,942
Mortgage-backed securities available for sale - at fair value	8,667	9,361
Mortgage-backed securities held to maturity - at cost, approximate market value of $2,987 and $3,230 at June 30, 2014 and December 31, 2013, respectively	2,880	3,116
Loans receivable - net	326,996	336,134
Loans held for sale - at lower of cost or market	1,191	703
Real estate acquired through foreclosure - net	2,790	3,284
Office premises and equipment - at depreciated cost	11,172	11,505
Federal Home Loan Bank stock - at cost	8,651	8,651
Accrued interest receivable on loans	1,060	1,173
Accrued interest receivable on mortgage-backed securities	21	23
Accrued interest receivable on investments and interest-earning deposits	788	775
Goodwill	10,309	10,309
Core deposit intangible	459	540
Prepaid expenses and other assets	3,902	3,537
Bank-owned life insurance	15,966	15,733
Prepaid federal income taxes	791	1,284
Deferred federal income taxes	2,220	4,928
Total assets	$ 581,043	$ 587,110
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$ 463,889	$ 469,387
Advances from the Federal Home Loan Bank	16,187	19,261
Advances by borrowers for taxes and insurance	1,072	2,357
Accrued interest payable	62	71
Accounts payable and other liabilities	5,492	5,107
Total liabilities	486,702	496,183

Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued Common stock - authorized 30,000,000 shares, $.01 par value; 6,707,803 and 6,834,803 shares issued at June 30, 2014 and December 31, 2013	76	76
Additional paid-in capital	55,781	57,215
Shares acquired by stock benefit plans	(1,545)	(1,574)
Retained earnings - restricted	42,559	42,439
Accumulated comprehensive loss, unrealized losses on securities available for sale, net of related tax benefit	(2,530)	(7,229)
Total shareholders' equity	94,341	90,927
Total liabilities and shareholders' equity	$581,043	$587,110

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)

	Six months ended June 30, 2014	Six months ended June 30, 2013	Three months ended June 30, 2014	Three months ended June 30, 2013
Interest income				
Loans	$7,412	$8,018	$3,668	$3,944
Mortgage-backed securities	112	82	52	41
Investment securities	1,547	1,645	796	777
Interest-earning deposits and other	178	196	90	98
Total interest income	9,249	9,941	4,606	4,860
Interest expense				
Deposits	1,538	1,887	767	920
Borrowings	286	377	137	183
Total interest expense	1,824	2,264	904	1,103
Net interest income	7,425	7,677	3,702	3,757
Provision for losses on loans	555	340	355	285
Net interest income after provision for losses on loans	6,870	7,337	3,347	3,472
Other income				
Rental	56	73	31	31
Gain on sale of real estate acquired through foreclosure	25	69	-	71
Loss on sale of office premises and equipment	-	(255)	-	(255)
Gain on sale of loans	167	425	101	187
Gain on sale of investment securities designated as available-for-sale	722	-	281	-
Earnings on bank-owned life insurance	233	241	117	122
Service fee income	771	736	401	376
Other operating	37	200	26	10
Total other income	2,011	1,489	957	542
General, administrative and other expense				
Employee compensation and benefits	2,882	3,323	1,408	1,640
Occupancy and equipment	732	832	354	428
Property, payroll and other taxes	569	727	276	359
Data processing	318	298	158	150
Legal and professional	463	492	232	277
Advertising	150	150	75	75

FDIC expense	216	219	99	111
ATM processing expense	183	185	95	95
Real estate owned impairment	493	256	297	155
Core deposit intangible amortization	81	112	34	47
Other operating	902	789	546	359
Total general, administrative and other expense	6,989	7,383	3,574	3,696
Earnings before income taxes	1,892	1,443	730	318
Federal income taxes (benefit)				
Current	145	(97)	(210)	(97)
Deferred	405	484	413	150
Total federal income taxes	550	387	203	53
NET EARNINGS	$1,342	$1,056	$527	$265
EARNINGS PER SHARE				
Basic	$.20	$.15	$.08	$.04
Diluted	$.20	$.15	$.08	$.04
Dividends per common share	$.18	$.18	$.09	$.09

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

For the six and three months ended June 30, 2014 and 2013
(In thousands)

	For the six months ended June 30,		For the three months ended June 30,	
	2014	2013	2014	2013
Net earnings for the period	$1,342	$1,056	$527	$265
Other comprehensive income (loss), net of tax expense (benefit):				
Unrealized holding (losses) gains on securities during the period, net of tax (benefits) expense of $2,421 and $(2,813) for the six months ended June 30, 2014 and 2013, respectively, and $1,398 and $(2,660) for the three months ended June 30, 2014 and 2013, respectively	4,699	(5,461)	2,713	(5,164)
Comprehensive income (loss)	$6,041	$(4,405)	$3,240	$(4,899)
Accumulated comprehensive loss	$(2,530)	$(4,861)	$(2,530)	$(4,861)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the six months ended June 30, 2014 and 2013
(In thousands)

	2014	2013
Cash flows from operating activities:		
Net earnings for the period	$1,342	1,056
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	(12)	(19)
Depreciation	361	370
Charitable donation of real estate owned property	-	32
Amortization of deferred loan origination costs - net	23	(13)
Amortization of intangible assets	81	112
Amortization of fair value adjustments	(215)	(482)
Proceeds from sale of loans in the secondary market	10,999	27,816
Loans originated for sale in the secondary market	(11,425)	(23,899)
Gain on sale of loans	(167)	(425)
Gain on sale of real estate acquired through foreclosure	(25)	(69)
Impairment on real estate acquired through foreclosure	493	256
Loss on sale of office premises and equipment	-	255
Gain on sale of investment securities designated as available-for-sale	(722)	-
Net increase in cash surrender value of bank-owned life insurance	(233)	(242)
Amortization of expense related to stock benefit plans	38	39
Provision for losses on loans	555	340
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	113	65
Accrued interest receivable on mortgage-backed securities	2	2
Accrued interest receivable on investments and interest earning deposits	(13)	224
Prepaid expenses and other assets	(364)	825
Accrued interest payable	(9)	(2)
Accounts payable and other liabilities	340	(1,770)
Federal income taxes		
Current	493	(93)
Deferred	405	484
Net cash provided by operating activities	2,060	4,862
Cash flows provided by (used in) investing activities:		
Principal repayments on loans	32,298	38,641
Loan disbursements	(23,983)	(37,872)
Purchase of investment securities – available for sale	(14,978)	(80,928)
Proceeds from maturity of investment securities – available for sale	30,000	106,175
Purchase of corporate securities	-	(1,920)

Proceeds from the sale of corporate securities	2,484	-
Principal repayments on mortgage-backed securities – available for sale	742	682
Principal repayments on mortgage-backed securities – held to maturity	236	218
Proceeds from sale of real estate acquired through foreclosure	405	878
Proceeds from sale of office premises and equipment	-	1,167
Purchase of office premises and equipment	(28)	(1,104)
Net cash provided by investing activities	27,176	25,937
Cash flows provided by (used in) financing activities:		
Net decrease in deposits	(5,311)	(12,974)
Repayments on Federal Home Loan Bank advances	(3,030)	(3,074)
Advances by borrowers for taxes and insurance	(1,285)	(1,379)
Stock option expense, net	7	12
Common stock repurchased	(1,450)	(8,560)
Dividends paid on common stock	(1,222)	(1,282)
Net cash used in financing activities	(12,291)	(27,257)
Net increase in cash and cash equivalents	16,945	3,542
Cash and cash equivalents at beginning of period	22,112	25,114
Cash and cash equivalents at end of period	$39,057	$28,656

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

For the six months ended June 30, 2014 and 2013
(In thousands)

	2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$-	$-
Interest on deposits and borrowings	$1,833	$2,266
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$383	$2,040
Recognition of mortgage servicing rights	$66	$204
Deferred gain on real estate acquired through foreclosure	$4	$7

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2014 and 2013

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, 2013. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the three or six month period ended June 30, 2014 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 six months ended June 30, 2014 and 2013 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 June 30, 2014 and December 31, 2013, the Corporation had $16.2 million and $19.3 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 $123.6 million and $121.1 million, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June, 2014 and 2013

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 six months ended June 30, 2014, loan originations totaled $35.4 million, compared to $61.8 million for the six months ended June 30, 2013.

Total deposits decreased $5.5 million during the six months ended June 30, 2014, while total deposits decreased $13.3 million during the six months ended June 30, 2013. 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 June 30, 2014.

	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	$237	$11,623	$1,915	$2,412	$16,187
Certificates of deposit	130,121	69,114	24,950	27	224,212
Lease obligations	103	133	119	174	529
Purchase of leased facility	575	–	–	–	575
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	2,068	–	–	–	2,068
Home equity lines of credit	26,248	–	–	–	26,248
Commercial lines of credit	1,243	–	–	–	1,243
Undisbursed loans in process	2,821	–	–	–	2,821
Total contractual obligations	$163,416	$80,870	$26,984	$2,613	$273,883

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, its anticipated that a significant portion of maturing time deposits will be retained.

At June 30, 2014 and 2013, we exceeded all of the applicable regulatory capital requirements. Core (Tier 1) capital was $78.3 million and $77.8 million, or 13.7% and 13.3% of total assets at June 30, 2014 and 2013, respectively. In order to be classified as "well-capitalized" under federal banking regulations, the Savings Bank was required to have core capital of at least $34.9 million, or 6.0% of assets as of June 30, 2014. To be classified as a well-capitalized bank, the Savings Bank must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At June 30, 2014 and 2013, the Savings Bank had a total risk-based capital ratio of 26.5% and 25.7%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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 168,300 and 208,251 unallocated shares held by the ESOP for the six months ended June 30, 2014 and 2013, respectively.

	For the six months ended June 30,		For the three months ended June 30,	
	2014	2013	2014	2013
Weighted-average common shares outstanding (basic)	6,630,407	7,101,890	6,607,066	6,905,946
Dilutive effect of assumed exercise of stock options	4,991	6,872	5,911	7,692
Weighted-average common shares outstanding (diluted)	6,635,398	7,108,762	6,612,977	6,913,638

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 416,517 stock options. During 2012, approximately 5,600 stock options were granted subject to a five year vesting period. The shares in the plan and the shares granted have been adjusted to reflect the exchange ratio of 0.857.

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 six months ended June 30, 2014, the Corporation recorded $7,000 in after-tax compensation cost for equity-based awards that vested during the six months ended June 30, 2014. The Corporation has $20,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of June 30, 2014, which is expected to be recognized over a weighted-average vesting period of approximately 1.0 months.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of June 30, 2014 and the year ended December 31, 2013 as well as the changes during the period then ended are presented below:

	Six months ended June 30, 2014		Year ended December 31, 2013	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	369,939	$12.80	370,339	$12.80
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	(400)	8.30
Outstanding at end of period	369,939	$12.80	369,939	$12.80
Options exercisable at period-end	363,791	$12.74	359,177	$12.91
Options expected to be exercisable at year-end	363,791		359,177	
Fair value of options granted		NA		NA

The following information applies to options outstanding at June 30, 2014:

Number outstanding	369,939
Exercise price	$8.30 - $15.90
Weighted-average exercise price	$12.80
Weighted-average remaining contractual life	1.4 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.

On April 23, 2013, shareholders approved the 2013 Equity Incentive Plan. As of June 30, 2014, no shares have been granted or options awarded under this plan.

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 six months ended June 30, 2014 and 2013

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities at June 30, 2014 and December 31, 2013 are shown below.

	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$145,066	$32	$4,377	$140,721
Municipal obligations	3,034	149	13	3,170
Corporate securities	158	74	-	232
	$148,258	$255	$4,390	$144,123

	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$160,063	$-	$11,714	$148,349
Municipal obligations	3,035	83	103	3,015
Corporate securities	1,920	658	-	2,578
	$165,018	$741	$11,817	$153,942

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

The amortized cost of investment securities at June 30, 2014, by contractual term to maturity, are shown below.

	June 30, 2014 (In thousands)
Less than one year	$ -
One to five years	55,166
Five to ten years	67,213
More than ten years	25,721
	148,100

Corporate securities		158
Corporate securities	$	148,258

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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 June 30, 2014 and December 31, 2013 are shown below.

	June 30, 2014			
	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	$607	$ 34	$ 1	$640
Federal National Mortgage Association adjustable-rate participation certificates	5,477	76	2	5,551
Government National Mortgage Association adjustable-rate participation certificates	2,400	76	-	2,476
	$8,484	$ 186	$ 3	$8,667
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$228	$5	$-	$233
Federal National Mortgage Association adjustable-rate participation certificates	173	3	-	176
Government National Mortgage Association adjustable-rate participation certificates	2,479	99	-	2,578
	$2,880	$107	$-	$2,987

	December 31, 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	$677	$ 34	$ 1	$710
	5,940	40	36	5,944

Federal National Mortgage Association adjustable-rate participation certificates				
Government National Mortgage Association adjustable-rate participation certificates	2,622	85	-	2,707
	$9,239	$ 159	$ 37	$9,361

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2013			
	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	$253	$ 8	$ -	$261
Federal National Mortgage Association adjustable-rate participation certificates	212	6	-	218
Government National Mortgage Association adjustable-rate participation certificates	2,651	100	-	2,751
	$3,116	$ 114	$ -	$3,230

The amortized cost of mortgage-backed securities, including those designated as available for sale, at June 30, 2014, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	June 30, 2014 (In thousands)
Due in one year or less	$ 771
Due in one year through five years	3,257
Due in five years through ten years	4,491
Due in more than ten years	2,845
	$ 11,364

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at June 30, 2014:

	Less than 12 months			12 months or longer			Total		
Description of securities	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
	(Dollars in thousands)								

U.S. Government agency securities	5	$ 26,478	$ 523	21	$ 109,232	$ 3,854	26	$ 135,710	$ 4,377
Municipal obligations	-	-	-	1	702	13	1	702	13
Corporate stocks	-	-	-	-	-	-	-	-	-
Mortgage-backed securities	18	126	2	8	98	1	26	224	3
Total temporarily impaired securities	23	$ 26,604	$ 525	30	$ 110,032	$ 3,868	53	$ 136,636	$ 4,393

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

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, fair value adjustments arising from the First Franklin acquisition. The Corporation has approximately $2.5 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 $1.5 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

7. Income Taxes (continued)

Federal income tax on earnings differs from that computed at the statutory corporate tax rate for the periods ended June 30, 2014 and 2013:

	2014	2013
	(Dollars in thousands)	
Federal income taxes at statutory rate of 34%	$643	$491
Increase (decrease) in taxes resulting primarily from:		
Stock compensation	7	2
Nontaxable interest income	(20)	(22)
Cash surrender value of life insurance	(79)	(82)
Other	(1)	(2)
Federal income taxes per financial statements	$550	$387
Effective tax rate	29.1%	26.8%

8. Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value, is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity or contracts that convey or impose on an entity the contractual right or obligation to either receive or deliver cash for another financial instrument. These fair value estimates are based on relevant market information and information about the financial instruments. Fair value estimates are intended to represent the price for which an asset could be sold or liability could be settled. However, given there is no active market or observable market transactions identical to many of the Corporation's financial instruments, estimates of many of these fair values are based upon observable inputs which are subjective in nature, involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimated values.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at June 30, 2014:

Cash and cash equivalents: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Investment and mortgage-backed securities: For investment and mortgage-backed securities, fair value is deemed to equal the quoted market price.

Loans receivable: The loan portfolio was segregated into categories with similar characteristics, such as one-to four-family residential, multi-family residential and commercial real estate. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. For loans on deposit accounts, fair values were deemed to equal the historic carrying values. The historical carrying amount of accrued interest on loans is deemed to approximate fair value.

Federal Home Loan Bank stock: The carrying amount presented in the consolidated statements of financial condition is deemed to approximate fair value.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

8. Fair Value of Financial Instruments (continued)

Deposits: The fair value of NOW accounts, passbook accounts, and money market demand deposits is deemed to approximate the amount payable on demand at June 30, 2014. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

Advances from the Federal Home Loan Bank: The fair value of these advances is estimated using the rates currently offered for similar advances of similar remaining maturities or, when available, quoted market prices.

Advances by Borrowers for Taxes and Insurance: The carrying amount of advances by borrowers for taxes and insurance is deemed to approximate fair value.

Commitments to extend credit: For fixed-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At March 31, 2014, the fair value of the derivative loan commitments was not material.

9. Disclosures about Fair Value of Assets and Liabilities

The estimated fair values of the Company's financial instruments are as follows:

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
	(In thousands)			
Financial assets				
Cash and cash equivalents	$39,057	$39,057	$22,112	$22,112
Investment securities	144,123	144,123	153,942	153,942
Mortgage-backed securities	11,547	11,654	12,477	12,591
Loans receivable – net and loans held for sale	328,187	349,764	336,837	362,066
Accrued interest receivable	1,869	1,869	1,971	1,971
Federal Home Loan Bank stock	8,651	8,651	8,651	8,651
	$533,434	$555,118	$535,990	$561,333
Financial liabilities				
Deposits	$463,889	$462,136	$469,387	$468,417
Advances from the Federal Home Loan Bank	16,187	16,543	19,261	20,207
Accrued interest payable	62	62	71	71
Advances by borrowers for taxes and insurance	1,072	1,072	2,357	2,357

$481,210	$479,813	$491,076	$491,052

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

9. Disclosures about Fair Value of Assets and Liabilities (continued)

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 value on available for sale securities was 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 our custodian, which used third party data service providers and classified as level 2 assets. Management compares the fair values to another third party report for reasonableness. Available for sale securities includes U.S. agency securities, municipal bonds and mortgage-backed agency securities.

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
	(In thousands)			
Securities available for sale at June 30, 2014:				
U.S. Government agency securities	$140,721	-	$140,721	-
Municipal obligations	3,170	-	3,170	-
Corporate Securities	232	-	232	-
Mortgage-backed securities	8,667	-	8,667	-
Securities available for sale at December 31, 2013:				
U.S. Government agency securities	$148,349	-	$148,349	-
Municipal obligations	3,015	-	3,015	-

Corporate Securities	2,578	-	2,578	-
Mortgage-backed securities	9,361	-	9,361	-

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. Such fair values are obtained using independent appraisals based on comparable sales, which the Corporation considers to be Level 2 inputs. The aggregate carrying amount of impaired loans, including loans acquired from Franklin Savings with a fair value discount, at June 30, 2014 and December 31, 2013 were approximately $15.4 million and $16.5 million, respectively.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

9. Disclosures about Fair Value of Assets and Liabilities (continued)

The Corporation has real estate acquired through foreclosure totaling $2.8 million and $3.3 million at June 30, 2014 and December 31, 2013, 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. The aggregate amount of real estate acquired through foreclosure that is carried at fair value was approximately $2.8 and $3.3 million at June 30, 2014 and December 31, 2013, respectively.

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)
June 30, 2014:				
Financial assets:				
Cash and cash equivalents	$39,057	$ 39,057	$-	$ -
Mortgage-backed securities	2,987	-	2,987	-
Loans receivable - net	349,764	-	349,764	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,869	-	1,869	-
Financial liabilities:				
Deposits	462,136	-	462,136	-
Advances from the Federal Home Loan Bank	16,543	-	16,543	-
Advances by borrowers for taxes and insurance	1,072	-	1,072	-
Accrued interest payable	62	-	62	-
December 31, 2013:				
Financial assets:				
Cash and cash equivalents	$22,112	$ 22,112	$-	$ -
Mortgage-backed securities	3,230	-	3,230	-
Loans receivable - net	362,066	-	362,066	-
Federal Home Loan Bank stock	8,651	-	8,651	-
Accrued interest receivable	1,971	-	1,971	-
Financial liabilities:				
Deposits	468,417	-	468,417	-
Advances from the Federal Home Loan Bank	20,207	-	20,207	-
Advances by borrowers for taxes and insurance	2,357	-	2,357	-

Accrued interest payable	71	-	71	-

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

10. Effects of Recent Accounting Pronouncements

We adopted the following accounting guidance in 2014, none of which had a material effect, if any, on our consolidated financial position or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)¸which clarifies when an in substance repossession or foreclosure has occurred and the creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan either when legal title to the residential real estate property is obtained upon completion of a foreclosure or when the borrower has conveyed all interest in the residential real property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or similar arrangement. The ASU also require disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

In June 2014, The FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The effective date is the same for both public business entities and all other entities. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

In June 2014, The FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. The amendments in this ASU are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early application for a public company is prohibited. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

In May 2014, The FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). For a public entity, the amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We do not expect the adoption of these provisions to have a significant impact on the Company’s consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

11. Intangible Assets

The Corporation recorded goodwill and other intangibles associated with the purchase of First Franklin and Franklin Savings in March 2011 totaling $11.6 million. Goodwill is not amortized, but is periodically evaluated for impairment. The Corporation did not recognize any impairment during the quarter ended June 30, 2014. The carrying amount of the goodwill at June 30, 2014 was $10.3 million.

Identifiable intangibles are amortized to their estimated residual values over the expected useful lives. Such lives are also periodically reassessed to determine if any amortization period adjustments are required. During the quarter ended June 30, 2014, no such adjustments were recorded. The identifiable intangible asset consists of a core deposit intangible which is being amortized on an accelerated basis over the useful life of such asset. The gross carrying amount of the core deposit intangible at June 30, 2014 was $1.3 million, with $839,000 in accumulated amortization as of that date.

As of June 30, 2014, the current year and estimated future amortization expense for the core deposit intangible was:

2014	$68
2015	116
2016	110
2017	110
2018	55
Total	$459

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing Receivables

The recorded investment in loans was as follows as of June 30, 2014:

	One-to four-Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Purchased loans	$73,312	$ 5,166	$ -	$ 25,328	$205	$ 104,011
Fair value discount	(1,217)	(98)	-	(520)	(15)	(1,850)
Purchased loans book value	72,095	5,068	-	24,808	190	102,161
Originated loans (1)	160,530	14,153	6,921 (2)	47,793	786	230,183
Ending balance	$232,625	$ 19,221	$ 6,921	$ 72,601	$976	$332,344

(1) Includes loans held for sale
(2) Before consideration of undisbursed Loans-in-process

The carrying amount of purchased loans consisting of credit-impaired purchased loans and non-impaired purchased loans is shown in the following table as of June 30, 2014.

	Non-impaired Purchased Loans (In thousands)	Credit Impaired Purchased Loans (In thousands)
One-to-four family residential	$ 67,775	$ 4,320
Multi-family residential	4,707	361
Construction	-	-
Commercial	18,389	6,419
Consumer	188	2
Total	$ 91,059	$ 11,102

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

The following summarizes activity in the allowance for credit losses:

	June 30, 2014 One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Allowance for loan losses:						
Beginning balance	$1,352	$ 194	$ 9	$ 131	$11	$1,697
Provision	534	(18)	(1)	41	(1)	555
Charge-offs	(279)	-	-	(39)	-	(318)
Recoveries	19	-	-	40	-	59
Ending balance	$1,626	$ 176	$ 8	$ 173	$10	$1,993
Originated loans: Individually evaluated for impairment	$189	$ 1	$ -	$ 8	$-	$198
Purchased loans: Individually evaluated for impairment	$143	$ -	$ -	$ -	$-	$143
Originated loans: Collectively evaluated for impairment	$831	$ 175	$ 8	$ 165	$10	$1,189
Purchased loans: Loans acquired with deteriorated credit quality	$463	$ -	$ -	$ -	$-	$463
Loans receivable:						
Ending balance	$232,625	$ 19,221	$ 6,921	$ 72,601	$976	$332,344
Ending balance:	$69,129	$ 4,802	$ -	$ 18,553	$188	$92,672

Individually evaluated for impairment (1)						
Ending balance: Collectively evaluated for impairment	$159,176	$ 14,058	$ 6,921	$47,629	$786	$228,570
Ending balance: Loans acquired with deteriorated credit quality	$4,320	$ 361	$ -	$6,419	$2	$11,102

(1) Includes loans acquired from First Franklin with outstanding balances of $91,059 at June 30, 2014.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

	December 31, 2013 One-to four-Family Residential (In thousands)	Multi-family Residential	Construction	Commercial	Consumer	Total
Allowance for loan losses:						
Beginning balance	$1,823	$ 172	$ 1	$ 153	$11	$2,160
Provision	1,426	22	8	(14)	1	1,443
Charge-offs	(1,928)	-	-	(8)	(1)	(1,937)
Recoveries	31	-	-	-	-	31
Ending balance	$1,352	$ 194	$ 9	$ 131	$11	$1,697
Originated loans: individually evaluated for impairment	$-	$ -	$ -	$ -	$-	$-
Purchased loans: individually evaluated for impairment	$-	$ -	$ -	$ -	$-	$-
Originated loans: collectively evaluated for impairment	$939	$ 194	$ 9	$ 131	$11	$1,284
Purchased loans: loans acquired with deteriorated credit quality	$413	$ -	$ -	$ -	$-	$413
Loans receivable:						
Ending balance	$236,236	$ 22,805	$ 7,141	$ 72,755	$2,278	$341,215
Ending balance: Individually evaluated for impairment (1)	$77,380	$ 6,535	$ -	$ 21,055	$1,508	$106,478

Ending balance: Collectively evaluated for impairment	$155,676	$ 15,214	$ 7,141	$45,109	$770	$223,910
Ending balance: Loans acquired with deteriorated credit quality	$3,180	$ 1,056	$ -	$6,591	$-	$10,827

(1) Includes loans acquired from First Franklin with outstanding balances of $103,497 at December 31, 2013.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended June 30, 2014 and 2013

12. Financing receivables (continued)

The Corporation assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. Loans judged to carry lower-risk attributes are assigned a “pass” grade, indicating a minimal likelihood of loss. Loans judged to carry a higher-risk attributes are referred to as “classified loans” and are further disaggregated, with increasing expectations for loss recognition, as “special mention”, “substandard”, “doubtful”, and “loss”. The Loan Classification of Assets committee assigns the credit risk grades to loans and reports to the board on a monthly basis the “classified asset” report.

The following table summarizes the credit risk profile by internally assigned grade:

	Originated Loans at June 30, 2014					
	One-to four-Family Residential	Multi-family Residential	Construction	Commercial	Consumer	Total
	(In thousands)					
Grade:						
Pass	$158,852	$ 14,058	$6,921	$46,753	$786	$227,370
Special mention	-	-	-	-	-	-
Substandard	1,678	95	-	1,040	-	2,813
Doubtful	-	-	-	-	-	-
Loss	-	-	-			