CHEVIOT FINANCIAL CORP
Form 10-Q
November 12, 2010

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, 2010

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)

Federal	56-2423720
(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, 2010, the latest practicable date, 8,861,110 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 o No o

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except share data)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	$4,058	$3,217
Federal funds sold	17,511	4,582
Interest-earning deposits in other financial institutions	5,827	3,484
Cash and cash equivalents	27,396	11,283
Investment securities available for sale - at fair value	61,431	55,851
Mortgage-backed securities available for sale - at fair value	4,431	4,920
Mortgage-backed securities held to maturity - at cost, approximate market value of $5,128 and $5,816 at September 30, 2010 and December 31, 2009, respectively	5,005	5,744
Loans receivable - net	231,498	245,905
Loans held for sale – at lower of cost or market	4,144	1,097
Real estate acquired through foreclosure - net	1,669	2,048
Office premises and equipment - at depreciated cost	4,683	4,889
Federal Home Loan Bank stock - at cost	3,375	3,369
Accrued interest receivable on loans	1,010	1,074
Accrued interest receivable on mortgage-backed securities	26	36
Accrued interest receivable on investments and interest-earning deposits	332	322
Prepaid expenses and other assets	1,636	1,591
Bank-owned life insurance	3,757	3,653
Prepaid federal income taxes	188	78
Total assets	$350,581	$341,860
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$247,781	$235,904
Advances from the Federal Home Loan Bank	28,703	33,672
Advances by borrowers for taxes and insurance	1,020	1,501
Accrued interest payable	100	136
Accounts payable and other liabilities	1,660	1,625
Deferred federal income taxes	768	272
Total liabilities	280,032	273,110
Shareholders' equity		
Preferred stock - authorized 5,000,000 shares, $.01 par value; none issued Common stock - authorized 30,000,000 shares, $.01 par value; 9,918,751 shares issued at	99	99

September 30, 2010 and December 31, 2009		
Additional paid-in capital	43,880	43,819
Shares acquired by stock benefit plans	(1,659)	(2,069)
Treasury stock - at cost, 1,053,843 and 1,050,045 shares at September 30, 2010 and December 31, 2009, respectively	(12,859)	(12,828)
Retained earnings - restricted	40,751	40,109
Accumulated comprehensive gain (loss), unrealized gains (losses) on securities available for sale, net of related tax effects (benefits)	337	(380)
Total shareholders' equity	70,549	68,750
Total liabilities and shareholders' equity	$350,581	$341,860

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	(Unaudited)			
Interest income				
Loans	$10,214	$11,103	$3,301	$3,577
Mortgage-backed securities	228	342	66	110
Investment securities	1,285	1,038	436	384
Interest-earning deposits and other	115	35	38	10
Total interest income	11,842	12,518	3,841	4,081
Interest expense				
Deposits	2,629	3,805	844	1,169
Borrowings	1,004	1,350	286	422
Total interest expense	3,633	5,155	1,130	1,591
Net interest income	8,209	7,363	2,711	2,490
Provision for losses on loans	250	803	150	351
Net interest income after provision for losses on loans	7,959	6,560	2,561	2,139
Other income (expense)				
Rental	48	38	17	13
Gain on sale of loans	389	319	306	47
Loss on sale of real estate acquired through foreclosure	(23)	(54)	(1)	(5)
Earnings on bank-owned life insurance	104	103	35	34
Other operating	324	247	116	90
Total other income	842	653	473	179
General, administrative and other expense				
Employee compensation and benefits	3,286	3,384	1,034	1,100
Occupancy and equipment	503	429	180	147
Property, payroll and other taxes	732	745	233	235
Data processing	175	257	63	73
Legal and professional	469	316	233	97
Advertising	150	150	50	50
FDIC expense	214	194	67	38
Other operating	596	570	201	143
Total general, administrative and other expense	6,125	6,045	2,061	1,883
Earnings before income taxes	2,676	1,168	973	435

Federal income taxes (benefit)				
Current	785	401	254	219
Deferred	127	9	36	(25)
Total federal income taxes	912	410	290	194
NET EARNINGS	$1,764	$758	$683	$241
EARNINGS PER SHARE				
Basic	$.20	$.09	$.08	$.03
Diluted	$.20	$.09	$.08	$.03
Dividends per common share	$.33	$.30	$.11	$.10

See accompanying notes to consolidated financial statements.

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Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the nine and three months ended September 30, 2010 and 2009
(In thousands)

	For the nine months ended September 30, 2010	2009	For the three months ended September 30, 2010	2009
Net earnings for the period	$1,764	$758	$683	$241
Other comprehensive income, net of tax:				
Unrealized holding gains on securities during the period, net of tax of $369 and $107 for the nine months ended September 30, 2010 and 2009, respectively, and $53 and $97 for the three months ended September 30, 2010 and 2009, respectively	717	207	102	188
Comprehensive income	$2,481	$965	$785	$429
Accumulated comprehensive income	$337	$ 66	$337	$66

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2010 and 2009
(In thousands)

	2010 (Unaudited)	2009
Cash flows from operating activities:		
Net earnings for the period	$1,764	$758
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of premiums and discounts on investment and mortgage-backed securities, net	21	15
Depreciation	240	234
Amortization of deferred loan origination fees - net	39	(20)
Proceeds from sale of loans in the secondary market	15,354	19,405
Loans originated for sale in the secondary market	(18,104)	(19,086)
Gain on sale of loans	(389)	(319)
Loss on sale of real estate acquired through foreclosure	23	54
Impairment on real estate acquired through foreclosure	102	-
Net charge-offs of loans receivable	(47)	-
Federal Home Loan Bank stock dividends	(6)	-
Provision for losses on loans	250	803
Net increase in cash surrender value of bank-owned life insurance	(104)	(102)
Amortization of expense related to stock benefit plans	380	363
Increase (decrease) in cash due to changes in:		
Accrued interest receivable on loans	64	48
Accrued interest receivable on mortgage-backed securities	10	(6)
Accrued interest receivable on investments and interest-earning deposits	(10)	71
Prepaid expenses and other assets	(45)	(499)
Accounts payable and other liabilities	35	753
Accrued interest payable	(36)	(25)
Federal income taxes		
Current	(110)	70
Deferred	127	9
Net cash used in (provided by) operating activities	(442)	2,526
Cash flows used in investing activities:		
Principal repayments on loans	37,861	58,684
Loan disbursements	(23,785)	(42,787)
Loans purchased	-	(1,700)
Purchase of investment securities – available for sale	(76,670)	(55,940)
Proceeds from maturity of investment securities – available for sale	72,101	30,565
Proceeds from maturity of investment securities – held to maturity	-	7,000
Purchase of mortgage-backed securities – available for sale	-	(5,267)
Principal repayments on mortgage-backed securities – available for sale	542	755
Principal repayments on mortgage-backed securities – held to maturity	740	911
Proceeds from sale of real estate acquired through foreclosure	531	268

Additions to real estate acquired through foreclosure	(96)	(236)
Proceeds from sale of office premises and equipment	-	1
Purchase of office premises and equipment	(34)	(211)
Net cash provided by (used in) investing activities	11,190	(7,957)

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the nine months ended September 30, 2010 and 2009
(In thousands)

	2010 (Unaudited)	2009
Cash flows provided by financing activities:		
Net increase (decrease) in deposits	11,877	16,277
Proceeds from Federal Home Loan Bank advances	10,000	-
Repayments on Federal Home Loan Bank advances	(14,969)	(6,631)
Advances by borrowers for taxes and insurance	(481)	(472)
Treasury stock repurchases	(31)	(29)
Stock option expense, net	91	186
Dividends paid on common stock	(1,122)	(1,019)
Net cash provided by financing activities	5,365	8,312
Net increase in cash and cash equivalents	16,113	2,881
Cash and cash equivalents at beginning of period	11,283	10,013
Cash and cash equivalents at end of period	$27,396	$12,894
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$794	$327
Interest on deposits and borrowings	$3,597	$5,180
Supplemental disclosure of noncash investing activities:		
Transfer of loans to real estate acquired through foreclosure	$181	$1,413
Recognition of mortgage servicing rights	$118	$153

See accompanying notes to consolidated financial statements.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2010 and 2009

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 Corporation is 62% owned by Cheviot Mutual Holding Company. Cheviot Savings' 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.

The accompanying unaudited 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, 2009. 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 and nine month periods ended September 30, 2010, are not necessarily indicative of the results which may be expected for the entire year.

2. Principles of Consolidation

The accompanying consolidated financial statements as of and for the three and nine months ended September 30, 2010, 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 our 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 our customers and to fund current and planned expenditures. Our 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 our operations. In addition, we may borrow from the Federal Home Loan Bank of Cincinnati. At September 30, 2010 and December 31, 2009, we had $28.7 million and $33.7 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 $114.4 million and $109.3 million, respectively.

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.

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Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

3. Liquidity and Capital Resources (continued)

Our primary investing activities are the origination of one-to four-family real estate loans, commercial real estate, construction and consumer loans, and, to a lesser extent, the purchase of securities. For the nine months ended September 30, 2010, loan originations totaled $41.9 million, compared to $61.9 million for the nine months ended September 30, 2009.

Total deposits increased $11.9 million during the nine months ended September 30, 2010, compared to an increase of $16.3 million during the nine months ended September 30, 2009. 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 contract as of September 30, 2010.

	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	$ -	$ 1,360	$ 7,350	$ 19,993	$ 28,703
Certificates of deposit	96,832	32,805	11,059	-	140,696
Amount of loan commitments and expiration per period:					
Commitments to originate one- to four-family loans	5,144	-	-	-	5,144
Home equity lines of credit	12,794	-	-	-	12,794
Commercial lines of credit	164	-	-	-	164
Undisbursed loans in process	2,742	-	-	-	2,742
Total contractual obligations	$ 117,676	$ 34,165	$ 18,409	$ 19,993	$ 190,243

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits will be retained.

At September 30, 2010 and 2009, we exceeded all of the applicable regulatory capital requirements. Our core (Tier 1) capital was $56.9 million and $57.2 million, or 16.7 % and 17.1% of total assets at September 30, 2010 and 2009. In order to be classified as "well-capitalized" under federal banking regulations, we were required to have core capital of at least $20.5 million, or 6.0% of assets, as of September 30, 2010. To be classified as a well-capitalized bank, we must also have a ratio of total risk-based capital to risk-weighted assets of at least 10.0%. At September 30, 2010 and 2009, we had a total risk-based capital ratio of 34.8% and 34.5%, respectively.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

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. The weighted-average common shares outstanding includes 5,455,313 shares held by our mutual holding company. Weighted-average common shares deemed outstanding gives effect to 142,833 and 178,540 unallocated shares held by the ESOP for the three and nine months ended September 30, 2010 and 2009, respectively.

	For the nine months ended September 30,		For the three months ended September 30,	
	2010	2009	2010	2009
Weighted-average common shares outstanding (basic)	8,723,800	8,691,891	8,722,075	8,690,166
Dilutive effect of assumed exercise of stock options	9,051	25,997	9,179	24,658
Weighted-average common shares outstanding (diluted)	8,732,851	8,717,888	8,731,254	8,714,824

5. Stock Option Plan

On April 26, 2005, the Corporation approved a Stock Incentive Plan that provides for grants of up to 486,018 stock options. During 2010, 2009, and 2008 approximately 8,860, 8,060, and 8,060 option shares were granted subject to five year vesting.

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, 2010, the Corporation recorded $91,000 in after-tax compensation cost for equity-based awards that vested during the nine months ended September 30, 2010. The Corporation has a $74,000 unrecognized pre-tax compensation cost related to non-vested equity-based awards granted under its stock incentive plan as of September 30, 2010, which is expected to be recognized over a weighted-average vesting period of approximately 0.2 years.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

5. Stock Option Plan (continued)

A summary of the status of the Corporation's stock option plan as of September 30, 2010, and changes during the period then ended is presented below:

	Nine months ended September 30, 2010		Year ended December 31, 2009	
	Shares	Weighted-average exercise price	Shares	Weighted-average exercise price
Outstanding at beginning of period	412,340	$ 11.11	404,280	$ 11.16
Granted	8,860	8.07	8,060	8.48
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at end of period	421,200	$ 11.05	412,340	$ 11.11
Options exercisable at period-end	397,260	$ 11.16	314,792	$ 11.17
Fair value of options granted		$ 4.83		$ 3.31

The following information applies to options outstanding at September 30, 2010:

Number outstanding	421,200
Exercise price	$8.07 - $13.63
Weighted-average exercise price	$11.16
Weighted-average remaining contractual life	4.9 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 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 2010: dividend yield of 5.45%, expected volatility of 44.55%, risk-free interest rate of 3.38% 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 three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair values of investment securities at September 30, 2010 and December 31, 2009 are shown below.

	September 30, 2010			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 59,475	$ 463	$ -	$ 59,938
Municipal obligations	1,545	18	70	1,493
	$ 61,020	$ 481	$ 70	$ 61,431

	December 31, 2009			
	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
	(In thousands)			
Available for Sale:				
U.S. Government agency securities	$ 54,915	$ 67	$ 527	$ 54,455
Municipal obligations	1,545	4	153	1,396
	$ 56,460	$ 71	$ 680	$ 55,851

The amortized cost of investment securities at September 30, 2010 by contractual term to maturity, are shown below.

	September 30, 2010 (In thousands)
Less than one year	$ 55,475
One to five years	4,000
Over five to ten years	310
More than ten years	1,235
	$ 61,020

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

The amortized cost, gross unrealized holding gains, gross unrealized holding losses and estimated fair values of mortgage-backed securities at September 30, 2010 and December 31, 2009 are shown below.

	September 30, 2010			
	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	$ 760	$ 26	$ -	$ 786
Federal National Mortgage Association adjustable-rate participation certificates	554	16	-	570
Government National Mortgage Association adjustable-rate participation certificates	3,017	58	-	3,075
	$ 4,331	$ 100	$ -	$ 4,431
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 496	$ 5	$ 4	$ 497
Federal National Mortgage Association adjustable-rate participation certificates	544	8	-	552
Government National Mortgage Association adjustable-rate participation certificates	3,965	114	-	4,079
	$ 5,005	$ 127	$ 4	$ 5,128

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

	December 31, 2009			
	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	$ 829	$ 1	$ -	$ 830
Federal National Mortgage Association adjustable-rate participation certificates	700	9	-	709
Government National Mortgage Association adjustable-rate participation certificates	3,358	24	1	3,381
	$ 4,887	$ 34	$ 1	$ 4,920
Held to maturity:				
Federal Home Loan Mortgage Corporation adjustable-rate participation certificates	$ 603	$ 1	$ 7	$ 597
Federal National Mortgage Association adjustable-rate participation certificates	640	3	1	642
Government National Mortgage Association adjustable-rate participation certificates	4,501	76	-	4,577
	$ 5,744	$ 80	$ 8	$ 5,816

The amortized cost of mortgage-backed securities, including those designated as available for sale, at September 30, 2010, 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, 2010 (In thousands)
Due in one year or less	$ 363

Due in one year through five years		1,566
Due in over five years through ten years		2,244
Due in more than ten years		5,163
	$	9,336

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

6. Investment and Mortgage-backed Securities (continued)

The table below indicates the length of time individual securities have been in a continuous unrealized loss position at September 30, 2010:

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized holding losses	Number of investments	Fair value	Unrealized holding losses	Number of investments	Fair value	Unrealized holding losses
	(Dollars in thousands)								
U.S. Government agency securities	-	$ -	$ -	-	$ -	$ -	-	$ -	$ -
Municipal obligations	-	-	-	2	1,165	70	2	1,165	70
Mortgage-backed securities	1	9	1	4	61	3	5	70	4
Total temporarily impaired securities	1	$ 9	$ 1	6	$ 1,226	$ 73	7	$ 1,235	$ 74

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 it will be required to sell a security in an unrealized loss position prior to a recovery in value. The fair values are expected to recover as securities approach maturity dates. The Company 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 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, the Corporation applied the standard to all tax positions for which the statute of limitations remained open. The Corporation was not required to record any liability for unrecognized tax benefits as of January 1, 2007. There have been no material changes in unrecognized tax benefits since January 1, 2007.

Cheviot Financial Corp.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the three and nine months ended September 30, 2010 and 2009

7. Income Taxes (continued)

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 2007.

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

8. Disclosures about Fair Value of Assets and Liabilities

Pursuant to GAAP, 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 in GAAP 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 were 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. 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 three and nine months ended September 30, 2010 and 2009

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

	Fair Value Measurements at September 30, 2010		
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant other unobservable