

CAMCO FINANCIAL CORP

Form 10-Q

August 16, 2010

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

(Mark One)

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

For the quarterly period ended June 30, 2010

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 Number 0-25196
CAMCO FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)**

Delaware

51-0110823

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

814 Wheeling Avenue, Cambridge, Ohio 43725-9757

(Address of principal executive office) (Zip code)

Registrant's telephone number, including area code: (740) 435-2020

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 the 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

Indicate by checkmark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

As of August 12, 2010, the latest practicable date, 7,155,595 shares of the registrant's common stock, \$1.00 par value, were outstanding.

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	\$ 18,033	\$ 20,490
Interest-bearing deposits in other financial institutions	15,534	17,663
Cash and cash equivalents	33,567	38,153
Securities available for sale, at fair value	38,396	55,950
Securities held to maturity, at cost, approximate fair value of \$2,828 and \$2,200 as of June 30, 2010 and December 31, 2009, respectively	2,742	2,113
Loans held for sale at lower of cost or fair value	1,669	475
Loans receivable net	680,238	659,022
Office premises and equipment net	10,450	10,870
Real estate acquired through foreclosure	10,599	9,660
Federal Home Loan Bank stock at cost	29,888	29,888
Accrued interest receivable	3,659	3,979
Mortgage servicing rights at lower of cost or fair value	4,339	4,433
Prepaid expenses and other assets	5,420	5,712
Cash surrender value of life insurance	19,029	18,838
Prepaid and refundable federal income taxes	4,384	3,562
Total assets	\$ 844,380	\$ 842,655
LIABILITIES AND STOCKHOLDERS EQUITY		
Deposits	\$ 652,872	\$ 659,902
Other Borrowings	11,879	11,941
Advances from the Federal Home Loan Bank and other borrowings	108,111	97,291
Advances by borrowers for taxes and insurance	145	1,909
Accounts payable and accrued liabilities	10,149	11,098
Total liabilities	783,156	782,141
Commitments		
Stockholders equity:		
Preferred stock \$1 par value; authorized 100,000 shares; no shares outstanding		
Common stock \$1 par value; authorized 14,900,000 shares; 8,884,509 shares issued at June 30, 2010 and December 31, 2009	8,885	8,885
Additional paid-in capital	60,262	60,124

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Retained earnings	15,043	14,695
Accumulated other comprehensive income net of related tax effects	1,242	1,049
Unearned compensation; 50,000 shares	(94)	(125)
Treasury stock 1,678,913 shares at June 30, 2010 and December 31, 2009, at cost	(24,114)	(24,114)
Total stockholders' equity	61,224	60,514
Total liabilities and stockholders' equity	\$ 844,380	\$ 842,655

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per share data)

(unaudited)	Six months ended June 30,		Three months ended June 30,	
	2010	2009	2010	2009
Interest income				
Loans	\$ 18,561	\$ 20,613	\$ 9,281	\$ 10,046
Investment securities	1,073	1,819	495	844
Other interest-earning accounts and dividends	673	689	333	344
Total interest and dividend income	20,307	23,121	10,109	11,234
Interest expense				
Deposits	5,689	8,420	2,744	3,948
Borrowings	1,989	2,971	992	1,402
Total interest expense	7,678	11,391	3,736	5,350
Net interest income	12,629	11,730	6,373	5,884
Provision for losses on loans	1,799	1,438	894	790
Net interest income after provision for losses on loans	10,830	10,292	5,479	5,094
Other income				
Rent and other	737	982	328	521
Loan servicing fees	637	632	320	316
Service charges and other fees on deposits	1,116	1,071	598	570
Gain on sale of loans	490	773	261	404
Mortgage servicing rights Net	(94)	269	(124)	209
Income on cash surrender value life insurance	435	494	220	238
Gain on sale of mortgage-backed securities and fixed assets	(1)	4	(1)	4
Total other income	3,320	4,225	1,602	2,262
General, administrative and other expense				
Employee compensation and benefits	6,654	6,540	3,269	3,064
Occupancy and equipment	1,485	1,543	743	761
Federal deposit insurance premium	1,036	1,061	558	779
Data processing	566	614	286	307
Advertising	170	297	89	125
Franchise taxes	534	582	269	314

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Postage, supplies and office expenses	567	687	274	327
Travel, training and insurance	176	138	98	73
Professional services	1,171	858	596	414
Real estate owned and other expenses	831	829	409	555
Loan and deposit expenses	727	748	384	174
Total general, administrative and other expenses	13,917	13,897	6,975	6,893
Earnings before federal income tax expense (benefit)	233	620	106	463
Total federal income tax expense (benefit)	(115)	383	(113)	461
NET EARNINGS	\$ 348	\$ 237	\$ 219	\$ 2
EARNINGS PER SHARE				
Basic	\$.05	\$.03	\$.03	\$.00
Diluted	\$.05	\$.03	\$.03	\$.00
Dividends declared per share	.00	.02	.00	.01

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

(unaudited)	Six months ended June 30,		Three months ended June 30,	
	2010	2009	2010	2009
Net earnings	\$ 348	\$ 237	\$ 219	\$ 2
Other comprehensive income, net of tax: Unrealized holding gains (losses) during the period, net of tax effects \$99 and\$(8), \$64 and \$(122) for the respective periods	193	(16)	125	(237)
Comprehensive income (loss)	\$ 541	\$ 221	\$ 344	\$ (235)

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30,
(In thousands)

(unaudited)	2010	2009
Cash flows from operating activities:		
Net earnings for the period	\$ 348	\$ 237
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of deferred loan origination fees	67	242
Amortization of premiums and discounts on investment and mortgage-backed securities net	8	(30)
Amortization of mortgage servicing rights net	546	459
Depreciation and amortization	628	546
Provision for losses on loans	1,799	1,438
Stock option expense	138	228
Provision for losses on REO	192	321
Loss on sale of real estate acquired through foreclosure	30	15
Restricted stock / unearned compensation	31	31
(Gain) loss on sale of investments and fixed assets	1	(4)
Gain on sale of loans	(490)	(773)
Loans originated for sale in the secondary market	(29,293)	(71,732)
Proceeds from sale of loans in the secondary market	28,589	69,320
Net increase in cash surrender value of life insurance	(351)	(411)
Increase (decrease) in cash due to changes in:		
Accrued interest receivable	320	412
Prepaid expenses and other assets	(629)	(229)
Accrued interest and other liabilities	(949)	(943)
 Net cash provided by (used in) operating activities	 985	 (873)
 Cash flows provided by (used in) investing activities:		
Principal repayments, maturities on securities held to maturity	195	11,224
Principal repayments, maturities on securities available for sale	17,842	33,396
Purchase of investment securities designated as available for sale		(24,019)
Purchase of investment securities designated as held to maturity	(828)	
Loan principal repayments	73,863	111,338
Loan disbursements and purchased loans	(100,079)	(55,964)
Proceeds from sale of office premises and equipment	10	4
Proceeds from surrender of bank owned life insurance	160	4,460
Additions to office premises and equipment	(219)	(106)
Proceeds from sale of real estate acquired through foreclosure	1,521	2,514
 Net cash provided by (used in) investing activities	 (7,535)	 82,847
	(6,550)	81,974

Net cash provided by (used in) operating and investing activities (balance carried forward)

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Camco Financial Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended June 30,

(In thousands)

(unaudited)	2010	2009
Net cash provided by (used in) operating and investing activities (balance brought forward)	\$ (6,550)	\$ 81,974
Cash flows used in financing activities:		
Net increase (decrease) in deposits	(7,030)	(12,353)
Proceeds from Federal Home Loan Bank advances and other borrowings	87,606	22,000
Repayment of Federal Home Loan Bank advances and other borrowings	(76,848)	(59,397)
Dividends paid on common stock		(144)
Decrease in advances by borrowers for taxes and insurance	(1,764)	(2,239)
Net cash provided by (used in) financing activities	1,964	(52,133)
Increase (decrease) in cash and cash equivalents	(4,586)	29,841
Cash and cash equivalents at beginning of period	38,153	52,285
Cash and cash equivalents at end of period	\$ 33,567	\$ 82,126
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest on deposits and borrowings	\$ 7,690	\$ 11,509
Cash received for income taxes	\$	\$ 806
Supplemental disclosure of noncash investing activities:		
Recognition of mortgage-servicing rights	\$ 358	\$ 728
Transfer of loans to real estate acquired through foreclosure	\$ 2,682	\$ 3,289

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Camco Financial Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended June 30, 2010 and 2009

1. **Basis of Presentation**

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 (US GAAP). Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Camco Financial Corporation (Camco or the Corporation) included in Camco s Annual Report on Form 10-K for the year ended December 31, 2009. However, all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the six month period ended June 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 include the accounts of Camco and its two wholly-owned subsidiaries: Advantage Bank (Advantage or the Bank) and Camco Title Agency, Inc.

3. **Critical Accounting Policies**

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of mortgage servicing rights. Actual results could differ from those estimates.

Allowance for Loan Losses

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration and interpretation of relevant information available to us. In developing this assessment, we must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

The allowance is regularly reviewed by management to determine whether the amount is considered adequate to absorb probable, incurred losses inherent in the loan portfolio at the balance sheet dates presented. Our evaluation of the adequacy of the allowance for loan losses is an estimate based on management s current judgment about the credit quality of the loan portfolio. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower s ability to repay, and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank s trends in delinquencies and loan losses, as well as trends in delinquencies and losses for the region and nationally, and economic factors. While we strive to reflect all known risk factors in our evaluations, actual results may differ significantly from our estimates.

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Camco Financial Corporation
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the six- and three-month periods ended June 30, 2010 and 2009

Mortgage Servicing Rights

To determine the fair value of our mortgage servicing rights (MSRs) each reporting quarter, we provide information to a third party valuation firm who assists us with determining the possible impairment of MSRs, as described below.

MSRs are recognized as separate assets when loans are sold with servicing retained. A pooling methodology to the servicing valuation, in which loans with similar characteristics are pooled together, is applied for valuation purposes.

Once pooled, each grouping of loans is evaluated on a discounted earnings basis to determine the present value of future earnings that the Bank could expect to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, interest earned on float, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value for the pool, calculated using consensus assumptions that a third party purchaser would utilize in evaluating a potential acquisition of the servicing.

Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds and the payment performance of the underlying loans. The interest rate for float, which we estimate, takes into consideration the investment portfolio average yield as well as current short duration investment yields. We believe this methodology provides a reasonable estimate. Mortgage loan prepayment speeds are calculated by the third party provider utilizing the Economic Outlook as published by the Office of Chief Economist of Freddie Mac in estimating prepayment speeds and provides a specific scenario with each evaluation. Based on the assumptions discussed, pre-tax projections are prepared for each pool of loans serviced. These earnings figures approximate the cash flow that could be received from the servicing portfolio. Valuation results are presented quarterly to management. At that time, we review the information and MSRs are marked to the lower of amortized cost or fair value for the current quarter.

Deferred Income Taxes

Camco recognizes expense for federal income taxes currently payable as well as for deferred federal taxes for estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the consolidated balance sheets, as well as loss carry forwards and tax credit carry forwards. Realization of a deferred tax asset is dependent upon generating sufficient taxable income in either the carry forward or carry back periods to cover net operating losses generated by the reversal of temporary differences. A valuation allowance is provided by way of a charge to income tax expense if it is determined that it is more likely than not that some or all of the deferred tax asset will not be realized. If different assumptions and conditions were to prevail, the valuation allowance may not be adequate to absorb unrealized deferred taxes and the amount of income taxes payable may need to be adjusted by way of a charge or credit to expense. Furthermore, income tax returns are subject to audit by the IRS. Income tax expense for current and prior periods is subject to adjustment based upon the outcome of such audits. Camco believes it has adequately accrued for all probable income taxes payable. Accrual of income taxes payable and valuation allowances against deferred tax assets are estimates subject to change based upon the outcome of future events.

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For the six- and three-month periods ended June 30, 2010 and 2009

4. Earnings Per Share

Basic earnings per common share are computed based upon the weighted-average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under the Corporation's stock option plans. The computations are as follows:

In thousands, except per share data	For the six months ended June 30,		For the three months ended June 30,	
	2010	2009	2010	2009
BASIC:				
Net Earnings	\$ 348	\$ 237	\$ 219	\$ 2
Weighted average common shares outstanding	7,206	7,199	7,206	7,206
Basic earnings per share	\$.05	\$.03	\$.03	\$.00