CAMCO FINANCIAL CORP
Form 10-K
March 19, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

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	**(I.R.S. Employer**
of incorporation or organization)	**Identification Number)**

814 Wheeling Avenue, Cambridge, Ohio	**43725**
(Address of principal executive offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 par value per share	**NASDAQ Global Market**
(Title of Each Class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the issuer (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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	¨	Accelerated Filer	¨
Non-Accelerated filer	¨	Smaller reporting company	x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sale reported as of June 29, 2012, was $16.5 million. There were 13,545,283 shares of the registrant s common stock outstanding on March 12, 2013.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III of Form 10-K: Portions of the Proxy Statement for the 2013 Annual Meeting of Stockholders

PART I

Item 1. Business.

General

Camco Financial Corporation (Camco or the Corporation) is a bank holding company that was organized under Delaware law in 1970. Camco is engaged in the financial services business in Ohio, Kentucky and West Virginia, through its wholly-owned subsidiary, Advantage Bank, an Ohio bank (Advantage or the Bank). On March 31, 2011, Camco divested activities related to Camco Title Agency and decertified as a financial holding company. Camco remains a bank holding company and continues to be regulated by the Federal Reserve Board (FRB).

Advantage is primarily regulated by the State of Ohio Department of Commerce, Division of Financial Institutions (the Division), and the Federal Deposit Insurance Corporation (the FDIC). Advantage is a member of the Federal Home Loan Bank (the FHLB) of Cincinnati, and its deposit accounts are insured up to applicable limits by the Deposit Insurance Fund (the DIF) administered by the FDIC.

Advantage s lending activities include the origination of commercial real estate and business loans, consumer loans, and residential conventional fixed-rate and variable-rate mortgage loans for the acquisition, construction or refinancing of single-family homes located in Advantage s primary market areas. Advantage also originates construction and permanent mortgage loans on condominiums, two- to four-family, multi-family (over four units) and nonresidential properties. Advantage continues to diversify the balance sheet through commercial, commercial real estate, and consumer loans as well as retail and business checking and money market deposit accounts.

The financial statements for Camco and Advantage are prepared on a consolidated basis. The principal source of revenue for Camco on an unconsolidated basis has historically been dividends from the Bank. Payment of dividends to Camco by the Bank is subject to various regulatory restrictions.

Because we are a public company, we are subject to regulation by the Securities and Exchange Commission (SEC). The SEC has established five categories of issuers for purpose of filing periodic and annual reports. Under these regulations, we are considered to be a smaller reporting company and, as such, must comply with SEC smaller reporting requirements.

References in this report to various aspects of the business, operations and financial condition of Camco may be limited to Advantage, as the context requires. Camco s Internet site, http://www.camcofinancial.com, provides Camco s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), free of charge as soon as reasonably practicable after Camco has filed the report with the SEC.

Recent Corporate Developments

On September 24, 2012, Camco announced a rights offering and public offering of up to $10.0 million worth of shares of its common stock to existing stockholders. Camco announced that any stock not sold in the rights offering may be sold in a public offering that immediately followed the rights offering. Under the terms of the rights offering all record holders of the Corporation s common stock as of July 29, 2012 received, at no charge, one subscription right for each share of common stock held as of the record date. Each subscription right entitled the holder of the right to purchase one share of Camco common stock at a subscription price of $1.75 per share. In addition, for every two shares purchased in the rights and public offerings, investors received one warrant to purchase Camco common stock within five years at $2.10 per share. Rights holders were provided the opportunity to purchase shares in excess of their basic subscription rights, subject to availability and certain limitations.

On November 8, 2012, Camco announced the successful closing of its $10.0 million rights offering. Our stockholders, along with unsolicited commitments from Directors and Officers allowed us to fully subscribe this $10.0 million offering without the need to solicit shares externally in the public offering phase. Camco issued 5,714,286 shares of common stock and 2,857,143 warrants at an exercise price of $2.10, which will expire on November 6, 2017**.** The total proceeds of the common stock offering were $9.4 million, net of offering costs of $619,000. The net proceeds of $9.4 million were invested in Advantage to improve its regulatory capital position.

Advantage is currently executing a project plan to acquire a 49% interest in AB Title Agency, LLC, which will partner with MJM Title Agency, LLC to provide insurance on titles. The execution of this plan is subject to the regulatory approval of the Division and FDIC.

Lending Activities

General. Camco s lending activities include the origination of commercial real estate and business loans, consumer loans, and conventional fixed-rate and adjustable-rate mortgage loans for the construction, acquisition or refinancing of single-family residential homes located in Advantage s primary market areas. Construction and permanent mortgage loans on condominiums, multifamily (over four units) and nonresidential properties are also offered by Camco.

Loan Portfolio Composition. The following table presents certain information regarding the composition of Camco s loan portfolio at the dates indicated:

	At December 31, 2012		2011		2010		2009		2008	
	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans	Amount	Percent of Total Loans
	(Dollars in thousands)									
Type of loan:										
Construction	$ 13,815	2.5%	$ 24,086	3.8%	$ 26,530	4.0%	$ 5,798	0.9%	$ 19,083	2.5%
Land, Farmland, Ag Loans	14,002	2.5	17,807	2.8	12,454	1.9	23,867	3.6	27,498	3.6
Residential	276,739	50.0	317,820	49.7	375,583	56.2	434,367	65.9	526,069	69.5
Commercial	137,606	24.8	164,256	25.7	163,951	24.6	135,371	20.5	131,518	17.4
Consumer	3,994	0.7	3,533	0.5	3,828	0.6	4,068	0.6	4,354	0.7
Commercial and industrial	42,094	7.6	38,921	6.1	28,943	4.3	25,668	3.9	26,425	3.5
Multi Family	79,988	14,4	88,276	13.8	74,342	11.1	46,138	7.0	37,087	4.9
Total Loans	$ 568,238	102.5	$ 654,699	102.4	$ 685,631	102.7	$ 675,277	102.4	$ 772,034	102.1
Less:										
Unamortized yield adjustments	(1,516)	(0.3)	(990)	(0.1)	(921)	(0.1)	(156)	(0.0)	354	0.0
Allowance for loan losses	(12,147)	(2.2)	(14,532)	(2.3)	(16,870)	(2.6)	(16,099)	(2.4)	(15,747)	(2.1)
Total loans, net	$ 554,575	100.0%	$ 639,177	100.0%	$ 667,840	100.0%	$ 659,022	100.0%	$ 756,641	100.0%

Loan Maturity Schedule. The following table sets forth certain information as of December 31, 2012, regarding the dollar amount of loans maturing in Camco s portfolio based on the contractual terms to maturity of the loans. Demand loans, loans having no stated schedule of repayments and loans having no stated maturity, are reported as due in one year or less.

	Due in one year or less	Due after one through five years	Due after five years	Total
	(In thousands)			
Loans:				
Construction	$ 4,541	$ 6,113	$ 3,161	$ 13,815
Land, Farmland, Ag Loans (1)	7,639	3,942	2,421	14,002
Residential	13,550	66,231	196,958	276,739
Commercial	8,373	70,245	58,988	137,606
Consumer	415	2,761	818	3,994
Commercial and industrial	13,704	26,714	1,676	42,094

Multi Family	6,710	26,777	46,501	79,988
Total	$ 54,932	$ 202,783	$ 310,523	$ 568,238

	Due after December 31, 2013 (In thousands)
Fixed rate of interest	$ 147,563
Adjustable rate of interest	365,743
Total	$ 513,306

(1) *See* Construction and development loan information on page 4 related to disbursement and construction periods. The above maturity schedule is the actual maturity date of loans including the construction period.

Generally, loans originated by Advantage are on a fully-amortizing basis. Advantage has no rollover provisions in its loan documents and anticipates that loans will be paid in full by the maturity date.

Residential Loans. A portion of the lending activity of Advantage is the origination of fixed-rate and adjustable-rate conventional loans for acquisition, refinancing, home equity lines of credit or construction of single-family residences. Home equity loans are made at fixed and variable rates of interest for terms of up to 15 years.

Advantage originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2012, the home equity line of credit loan portfolio totaled $71.1 million, or 12.5%, of the total loans. Advantage currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan. Advantage also offers a home equity line of credit whose terms include a fixed rate for a five year term. At December 31, 2012, total outstanding principal balances and available credit amounts of the home equity lines of credit constituted $108.2 million, or 19.1% of Advantage s total loans.

Federal regulations and Ohio law limit the amount which Advantage may lend in relationship to the appraised value of the underlying real estate at the time of loan origination (the Loan-to-Value Ratio or LTV). In accordance with such regulations and law, Advantage generally makes loans for its own portfolio on single-family residences up to 95% of the value of the real estate and improvements. Advantage generally requires the borrower on each loan with an LTV in excess of 80% to obtain private mortgage insurance, loan default insurance or a guarantee by a federal agency. On an exception basis only, Advantage permits borrowers to exceed a LTV of 80% without private mortgage insurance, loan default insurance or a guarantee by a federal agency.

The interest rate adjustment periods on adjustable-rate mortgage loans (ARMs) offered by Advantage are generally one, three, five and seven years. The interest rates initially charged on ARMs and the new rates at each adjustment date are determined by adding a stated margin to a designated interest rate index. Advantage has generally used one-year and three-year United States Treasury note yields, adjusted to a constant maturity, as the index for one-year and three-year adjustable-rate loans, respectively. Advantage has used the London Interbank Offered Rate (LIBOR) and FHLB advance rates as additional indices on certain loan programs to diversify its concentrations of indices that may prove beneficial during re-pricing of loans throughout changing economic cycles. The maximum adjustment on residential loans at each adjustment date for ARMs is usually 2%, with a maximum adjustment of 6% over the term of the loan.

From time to time, Advantage originates ARMs which have an initial interest rate that is lower than the sum of the specified index plus the margin. Such loans are subject to increased risk of delinquency or default due to increasing monthly payments as the interest rates on such loans increase to the fully indexed level. Advantage attempts to reduce the risk by underwriting ARMs at rates ranging from note rate on longer term ARMs to the maximum possible rate on shorter term ARMs. None of Advantage s ARMs have negative amortization or payment option features. Over the past few years, Advantage has not offered this product or originated such loans due to the abnormally low interest rate environment.

Residential mortgage loans offered by Advantage are usually for terms of up to 30 years, which could have an adverse effect upon earnings if the loans do not re-price as quickly as the cost of funds. To minimize such effect, Advantage generally sells fixed-rate loans to Freddie Mac and Fannie Mae with servicing retained. As a result of prepayments in connection with refinancing and sales of the underlying properties, residential loans generally remain outstanding for periods which are substantially shorter than the maturity of such loans. In 2012, approximately $6.0 million of Federal Housing Administration loans were sold, servicing released. Additionally, the Corporation held approximately $2.3 million, of ten and fifteen year fixed-rate residential loans due to the decreasing balance of our residential portfolio. The fixed rate loans that were held in portfolio were secondary market quality with low loan to values and reduced risk for delinquency. The Bank plans to continue to slightly build the residential fixed portfolio in 2013 in order to stabilize margin.

At December 31, 2012, fixed-rate loans comprised 28.7% of the one- to four-family residential loan portfolios. Approximately 71.3% of the one- to four-family residential loan portfolios had adjustable rates tied to U.S. Treasury note yields or LIBOR.

Construction and Development Loans. Advantage offers residential construction loans both to owner-occupants and to builders for homes being built under contract with owner-occupants. Advantage also makes loans to persons constructing projects for investment purposes. Loans for developed building lots are generally made on an adjustable-rate basis for terms of up to two years with an LTV of 65% or less.

Advantage offers construction loans to residential owner-occupants at adjustable-rate term loans on which the borrower pays only interest on the disbursed portion during the construction period, which is usually 9 months for residential. At December 31, 2012, Advantage had approximately $4.8 million of residential construction loans, of which $2.6 million was undisbursed.

Advantage also offers construction loans for investment properties which involve greater underwriting and default risks than loans secured by mortgages on existing properties or construction loans for single-family residences. Such construction loans are at adjustable-rate terms on which the borrower pays only interest on the disbursed portion during the construction period, which is usually 18 to 24 months. Loan funds are advanced upon the security of the project under construction, which is more difficult to value before the completion of construction. Moreover, because of the uncertainties inherent in estimating construction costs, it is relatively difficult to evaluate precisely the total loan funds required to complete a project and the related LTV ratios. In the event a default on a construction loan occurs and foreclosure follows, Advantage could be adversely affected because it would have to take control of the project and either arrange for completion of construction or dispose of the unfinished project. Advantage mitigates these risks by working with experienced developers that have substantial personal liquidity, and utilizing third party reviews related to the construction process, budgets and draws. At December 31, 2012, Advantage had $31.1 million of multi-family and non-residential construction loans, of which $19.5 million was undisbursed.

Nonresidential Real Estate Loans. Advantage originates loans secured by mortgages on nonresidential real estate, including office, industrial and other types of business facilities. Nonresidential real estate loans are made on an adjustable-rate or fixed-rate basis for terms of up to 10 years. Nonresidential real estate loans originated by Advantage generally have an LTV of 75% or less. The largest nonresidential real estate loan outstanding at December 31, 2012 was $6.7 million secured by a medical office building. Commercial and nonresidential real estate loans comprised $136.9 million, or 24.2% of total loans at December 31, 2012.

Nonresidential real estate lending is generally considered to involve a higher degree of risk than residential lending due to the relatively large loan amounts and the effects of general economic conditions on the successful operation of income-producing properties. Advantage has endeavored to reduce this risk by carefully evaluating the credit history and past performance of the borrower, the location of the real estate, the quality of the management operating the property, the rent roll, the property s debt service coverage, the quality and characteristics of the income stream generated by the property and appraisals supporting the property s valuation.

Consumer and Other Loans. Advantage makes various types of consumer loans, including loans made to depositors secured by deposit accounts, automobile loans and unsecured personal loans. Most other consumer loans are made at fixed rates of interest for terms of up to 10 years.

Consumer loans generally involve more risk as to collectability than real estate mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower s continued financial stability, and are at more risk from adverse changes in personal circumstances. In addition, application of various state and federal laws, including bankruptcy and insolvency laws, could limit the amount that may be recovered under these loans. Credit approval for consumer loans typically requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, credit history and sufficient collateral for secured loans. The risk of default on consumer loans during an economic recession is greater than for residential mortgage loans. Advantage reviews its consumer loan portfolio monthly and charges off loans that do not meet its standards to adhere strictly to all laws and regulations governing consumer lending.

Overdraft Line. Advantage grants overdraft lines to qualified customers based on credit scores. Overdraft line is a service that is provided to retail deposit customers by establishing an overdraft protection account. After the line is established customers are permitted to overdraw their checking account up to their overdraft line limit. Customer then receives information related to the overdraft line within their next depository statement. The balance related to overdraft lines was $55,000 at December 31, 2012 compared to $95,000 at December 31, 2011.

Loan Solicitation and Processing. Loan originations are developed from a number of sources, including: solicitations by Advantage s lending staff; referrals; participations with other banks; continuing business with depositors, other business borrowers and real estate developers; and walk-in customers. Advantage s management stresses the importance of individualized attention to the financial needs of its customers.

The loan origination process for each of Advantage s regions is centralized in the processing and underwriting of loans. Mortgage loan applications from potential borrowers are taken by loan officers originating loans and then forwarded to the loan department for processing. The Bank typically obtains a credit report, verification of employment and other documentation concerning the borrower and orders an appraisal of the fair market value of the collateral which will secure the loan. The collateral is thereafter physically inspected and appraised by a staff appraiser or by a designated fee appraiser approved by the Board of Directors of Advantage. Upon the completion of the appraisal and the receipt of all necessary information regarding the borrower, the loan is reviewed by an underwriter or officer with appropriate loan approval authority. If the loan is approved, an attorney s opinion of title or title insurance is generally obtained on the real estate which will secure the loan. Borrowers are required to carry satisfactory fire and casualty insurance and, if applicable, flood and private mortgage insurance, and to name Advantage as an insured mortgagee.

The procedure for approval of construction loans is the same as for mortgage loans, except that the appraiser evaluates the building plans, construction specifications and construction cost estimates. Advantage also evaluates the feasibility of the proposed construction project, often utilizing independent architects as consultants.

Consumer loans are underwritten on the basis of the borrower s credit history and an analysis of the borrower s income and expenses, ability to repay the loan and the value of the collateral. Centralized processing and underwriting are utilized to add adequate controls over the credit review process.

Loan Originations, Purchases and Sales. Generally, residential fixed-rate loans made by Advantage are originated with documentation which will permit a possible sale of such loans to secondary mortgage market investors. When a mortgage loan is sold to the investor, Advantage services the loan by collecting monthly payments of principal and interest and forwarding such payments to the investor, net of a servicing fee. Fixed-rate loans not sold and virtually all of the ARMs originated by Advantage are held in Advantage s loan portfolio. During the year ended December 31, 2012, Advantage sold approximately $109.2 million in loans. Residential loans serviced by Advantage for others totaled $426.5 million at December 31, 2012.

The Corporation s lending efforts have historically focused on loans secured by existing one- to four-family residential properties. Generally, such loans have been underwritten on the basis of no more than an 80% loan-to-value ratio, which has historically provided the Corporation with adequate collateral coverage in the event of default. Nevertheless, Advantage, as with any lending institution, is subject to the risk that residential real estate values could deteriorate in its primary lending areas within Ohio, West Virginia, and northern Kentucky, thereby impairing collateral values.

In 2009, our Commercial Banking Division began an extensive review of the loan portfolio and began to assist our Credit Administration Unit with implementing strategies to decrease our classified assets and non-performing loans. Since 2010, the Commercial Banking Division has been a key revenue driver with higher loan and origination fees and a significant amount of new commercial deposit relationships.

We believe that some of the key attributes of the commercial business include the opportunity to provide financial services to high net worth individuals, lower leveraged real estate projects and high credit quality operating companies. The Commercial Banking Division continues to be focused on relationship banking, credit quality and earning an acceptable interest rate margin.

Of the total loans originated by Advantage during the year ended December 31, 2012, 58.3% were ARM and 41.7% were fixed-rate loans. Adjustable-rate loans comprised 71.4% of Advantage s total loans outstanding at December 31, 2012.

From time to time, Advantage sells participation interests in mortgage loans, business loans and commercial loans originated by it and purchases whole loans or participation interests in loans originated by other lenders. Advantage held whole loans and participations in loans originated by other lenders of approximately $5.8 million at December 31, 2012 compared to $7.8 million at December 31, 2011. Loans that Advantage purchases or participates must meet or exceed the normal underwriting standards utilized by the Bank.

The following table presents Advantage s loan origination, purchase, sale and principal repayment activity for the periods indicated:

	Year ended December 31,				
	2012	2011	2010	2009	2008
			(In thousands)		
Loans originated:					
Construction (purchased and originated) [1]	$ 15,888	$ 24,990	$ 15,929	$ 2,310	$ 7,774
Residential	123,686	72,109	105,427	190,662	107,776
Commercial, consumer and other					