

UNITED COMMUNITY FINANCIAL CORP

Form 10-Q

November 13, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

For the transition period from to

UNITED COMMUNITY FINANCIAL CORP.

(Exact name of the registrant as specified in its charter)

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OHIO
(State or other jurisdiction
of incorporation)

0-024399
(Commission

34-1856319
(IRS Employer

File No.)
275 West Federal Street, Youngstown, Ohio 44503-1203

I.D. No.)

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (330) 742-0500

Not Applicable

(Former name or former address, if changed since last report)

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, 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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 32,896,591 common shares as of October 31, 2012.

Table of Contents

TABLE OF CONTENTS

	PAGE
<u>Part I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of September 30, 2012 (Unaudited) and December 31, 2011</u>	1
<u>Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	2
<u>Consolidated Statement of Shareholders' Equity for the Nine Months ended September 30, 2012 and 2011 (Unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6-49
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	50-63
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	64
Item 4. <u>Controls and Procedures</u>	65
<u>Part II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	66
Item 1A. <u>Risk Factors</u>	66
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
Item 3. Defaults Upon Senior Securities (None)	
Item 4. Mine Safety Disclosures (None)	
Item 5. <u>Other Information</u>	66
Item 6. <u>Exhibits</u>	66
<u>Signatures</u>	67
<u>Exhibits</u>	68-141

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. Financial Statements****UNITED COMMUNITY FINANCIAL CORP.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(Unaudited)**

	September 30, 2012	December 31, 2011
	<i>(Dollars in thousands)</i>	
Assets:		
Cash and deposits with banks	\$ 20,904	\$ 26,573
Federal funds sold	36,626	27,563
Total cash and cash equivalents	57,530	54,136
Securities:		
Available for sale, at fair value	551,795	459,598
Loans held for sale	9,076	12,727
Loans, net of allowance for loan losses of \$20,048 and \$42,271	1,100,328	1,379,276
Federal Home Loan Bank stock, at cost	26,464	26,464
Premises and equipment, net	21,355	19,175
Accrued interest receivable	5,660	6,741
Real estate owned and other repossessed assets	20,206	33,486
Core deposit intangible	263	346
Cash surrender value of life insurance	28,626	28,354
Other assets	9,641	10,384
Total assets	\$ 1,830,944	\$ 2,030,687
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Interest bearing	\$ 1,331,281	\$ 1,440,448
Noninterest bearing	159,361	148,049
Total deposits	1,490,642	1,588,497
Borrowed funds:		
Federal Home Loan Bank advances	50,000	128,155
Repurchase agreements and other	90,603	90,618
Total borrowed funds	140,603	218,773
Advance payments by borrowers for taxes and insurance	14,121	23,282
Accrued interest payable	628	610
Accrued expenses and other liabilities	13,370	10,780
Total liabilities	1,659,364	1,841,942
Shareholders Equity:		
Preferred stock-no par value; 1,000,000 shares authorized and unissued		
Common stock-no par value; 499,000,000 shares authorized; 37,804,457 shares issued and 32,891,495 and 32,597,762 shares, respectively, outstanding	128,228	128,031

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Retained earnings	84,778	110,681
Accumulated other comprehensive income	10,303	5,032
Treasury stock, at cost, 4,912,962 and 5,206,695 shares, respectively	(51,729)	(54,999)
Total shareholders equity	171,580	188,745
Total liabilities and shareholders equity	\$ 1,830,944	\$ 2,030,687

See Notes to Consolidated Financial Statements.

Table of Contents**UNITED COMMUNITY FINANCIAL CORP.****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	<i>(Dollars in thousands, except per share data)</i>			
Interest income				
Loans	\$ 14,567	\$ 19,558	\$ 49,182	\$ 63,489
Loans held for sale	101	163	305	270
Available for sale securities	3,219	3,323	10,253	9,264
Federal Home Loan Bank stock dividends	279	264	859	858
Other interest earning assets	25	13	48	35
Total interest income	18,191	23,321	60,647	73,916
Interest expense				
Deposits	2,600	5,972	9,574	18,384
Federal Home Loan Bank advances	535	793	1,880	2,414
Repurchase agreements and other	928	931	2,766	2,781
Total interest expense	4,063	7,696	14,220	23,579
Net interest income	14,128	15,625	46,427	50,337
Provision for loan losses	30,279	11,836	37,223	22,272
Net interest income (loss) after provision for loan losses	(16,151)	3,789	9,204	28,065
Non-interest income				
Non-deposit investment income	478	389	1,525	1,050
Service fees and other charges	793	203	4,011	3,244
Net gains (losses):				
Securities available for sale	1,192	1,958	5,161	3,500
Other -than-temporary loss in equity securities				
Total impairment loss		(35)		(73)
Loss recognized in other comprehensive income				
Net impairment loss recognized in earnings		(35)		(73)
Mortgage banking income	2,110	682	5,308	4,432
Real estate owned and other repossessed assets	(1,795)	(2,627)	(3,447)	(4,981)
Other income	974	1,346	3,234	4,032
Total non-interest income	3,752	1,916	15,792	11,204
Non-interest expense				
Salaries and employee benefits	8,634	7,927	25,651	23,297
Occupancy	845	854	2,495	2,615
Equipment and data processing	1,665	1,592	5,074	4,910
Franchise tax	521	370	1,396	1,241
Advertising	134	204	486	466
Amortization of core deposit intangible	26	33	83	106
Prepayment penalty	65		803	

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Deposit insurance premiums	1,012	1,111	3,176	3,573
Professional fees	2,219	1,290	4,138	2,545
Real estate owned and other repossessed asset expenses	383	361	1,504	2,125
Other expenses	1,826	827	6,061	6,089
Total non-interest expenses	17,330	14,569	50,867	46,967
Loss before income taxes	(29,729)	(8,864)	(25,871)	(7,698)
Income tax benefit	(2,838)		(2,838)	
Net loss	\$ (26,891)	\$ (8,864)	\$ (23,033)	\$ (7,698)

Table of Contents

(Continued)

UNITED COMMUNITY FINANCIAL CORP.**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME****(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net loss	\$ (26,891)	\$ (8,864)	\$ (23,033)	\$ (7,698)
Other comprehensive income				
Unrealized gains on securities, net	2,729	8,218	5,271	13,919
Comprehensive income	\$ (24,162)	\$ (646)	\$ (17,762)	\$ 6,221
Loss per share				
Basic	\$ (0.82)	\$ (0.29)	\$ (0.70)	\$ (0.25)
Diluted	(0.82)	(0.29)	(0.70)	(0.25)

See Notes to Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

	Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	<i>(Dollars in thousands, except per share data)</i>					
Balance December 31, 2011	32,598	\$ 128,031	\$ 110,681	\$ 5,032	\$ (54,999)	\$ 188,745
Comprehensive income:						
Net loss			(23,033)			(23,033)
Other comprehensive income				5,271		5,271
Stock based compensation	293	197	(2,870)		3,270	597
Balance September 30, 2012	32,891	\$ 128,228	\$ 84,778	\$ 10,303	\$ (51,729)	\$ 171,580
Balance December 31, 2010	30,938	\$ 142,318	\$ 111,049	\$ (4,778)	\$ (72,534)	\$ 176,055
Comprehensive income:						
Net loss			(7,698)			(7,698)
Other comprehensive income				13,919		13,919
Stock based compensation	46	376	(448)		493	421
Balance September 30, 2011	30,984	\$ 142,694	\$ 102,903	\$ 9,141	\$ (72,041)	\$ 182,697

See Notes to Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Cash Flows from Operating Activities		
Net loss	\$ (23,033)	\$ (7,698)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	37,223	22,272
Mortgage banking income	(5,308)	(4,432)
Net losses on real estate owned and other repossessed assets sold	3,447	4,981
Net gain on available for sale securities sold	(5,161)	(3,500)
Net loss on other assets sold		161
Other than temporary impairment of securities available for sale		73
Amortization of premiums and accretion of discounts	1,016	(405)
Depreciation and amortization	1,183	1,314
Decrease in interest receivable	1,081	704
Increase (decrease) in interest payable	18	(16)
Decrease in prepaid and other assets	254	7,308
Decrease in other liabilities	554	(1,948)
Stock based compensation	597	421
Net principal disbursed on loans originated for sale	(226,708)	(108,389)
Proceeds from sale of loans originated for sale	235,667	94,374
Death benefit from bank owned life insurance	1,115	
Net change in value of interest rate caps	1,423	
Net cash from operating activities	23,368	5,220
Cash Flows from Investing Activities		
Proceeds from principal repayments and maturities of:		
Securities available for sale	56,123	27,037
Proceeds from sale of:		
Securities available for sale	286,926	201,856
Real estate owned and other repossessed assets	13,830	14,058
Premises and equipment		11
Loans held for investment	81,451	110,478
Purchases of:		
Securities available for sale	(424,932)	(268,032)
Principal disbursed on loans, net of repayments	154,499	55,947
Loans purchased	(289)	(3,202)
Purchases of premises and equipment	(1,593)	(348)
Net cash from investing activities	166,015	137,805
Cash Flows from Financing Activities		
Net increase in checking, savings and money market accounts	76,079	70,566
Net decrease in certificates of deposit	(173,934)	(72,406)
Net decrease in advance payments by borrowers for taxes and insurance	(9,161)	(7,466)
Proceeds from Federal Home Loan Bank advances	435,551	306,000
Repayment of Federal Home Loan Bank advances	(513,706)	(420,494)
Prepayment penalty on Federal Home Loan Bank term advances	(803)	
Net change in repurchase agreements and other borrowed funds	(15)	(7,174)

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Net cash from financing activities	(185,989)	(130,974)
Change in cash and cash equivalents	3,394	12,051
Cash and cash equivalents, beginning of period	54,136	37,107
Cash and cash equivalents, end of period	\$ 57,530	\$ 49,158

See Notes to Consolidated Financial Statements

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

United Community Financial Corp. (United Community or the Company) was incorporated under Ohio law in February 1998 by The Home Savings and Loan Company of Youngstown, Ohio (Home Savings) in connection with the conversion of Home Savings from an Ohio mutual savings and loan association to an Ohio capital stock savings association (the Conversion). Upon consummation of the Conversion on July 8, 1998, United Community became the unitary thrift holding company for Home Savings. Home Savings, a state-chartered savings bank, conducts business from its main office located in Youngstown, Ohio, 34 full-service branches and eight loan production offices located throughout Ohio and western Pennsylvania.

The accompanying consolidated financial statements of United Community have been prepared in accordance with instructions relating to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments) that are, in the opinion of management, necessary for a fair statement of results for the interim periods.

The results of operations for the three and nine months ended September 30, 2012, are not necessarily indicative of the results to be expected for the year ending December 31, 2012. The consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2011, contained in United Community's Form 10-K for the year ended December 31, 2011.

Some items in the prior year financial statements were reclassified to conform to the current presentation. These reclassifications had no effect on prior period net income or shareholders' equity.

2. REGULATORY ENFORCEMENT ACTION

United Community is a unitary thrift holding company, and historically was subject to regulation, examination and oversight by the Office of Thrift Supervision (OTS). As a result of the elimination of the OTS pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), on July 21, 2011, United Community ceased to be regulated by the OTS and now is regulated by the Federal Reserve Bank (FRB). On August 8, 2008, the board of directors of United Community approved a Stipulation and Consent to the Issuance of an Order with the OTS (the Holding Company Order). Simultaneously, the board of directors of Home Savings approved a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the Bank Order) with the Federal Deposit Insurance Corporation (FDIC) and the Ohio Division of Financial Institutions (the Ohio Division), which was terminated as of March 30, 2012, and replaced with a Consent Order (the Consent Order), as described below. Although United Community and Home Savings have agreed to the issuance of the Holding Company Order and the Consent Order, respectively, neither has admitted or denied any allegations of unsafe or unsound banking practices, or any legal or regulatory violations. No monetary penalties were assessed by the OTS, the FDIC or the Ohio Division.

The Holding Company Order requires United Community to obtain FRB approval prior to: (i) incurring or increasing its debt position; (ii) repurchasing any United Community stock; or (iii) paying any dividends. The Holding Company Order also required United Community to develop a debt reduction plan and submit the plan to the OTS for approval. The Holding Company Order remains in effect and was amended November 5, 2010. This amendment removed the requirement in the original Holding Company Order to provide the OTS with a debt reduction plan and added a requirement to provide the OTS with a capital plan. The capital plan is consistent with and incorporated into the strategic planning process that Home Savings undertook when the Bank Order was issued. The capital plan was submitted to the OTS in December 2010 and a revised capital plan was submitted to the FRB, FDIC and Ohio Division in December 2011.

On March 30, 2012, Home Savings entered into a consent agreement with the FDIC and the Ohio Division that provided for the issuance of the Consent Order by the FDIC and Ohio Division. Immediately following the issuance of the Consent Order, the FDIC and Ohio Division terminated the previous Bank Order issued by the FDIC and Ohio Division on August 13, 2008.

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The Consent Order requires Home Savings, within specified timeframes, to take or refrain from certain actions, including that it shall:

(i) continue to retain qualified management; (ii) seek regulatory approval prior to adding any individuals to the board of directors or employing any individual as a senior executive officer of Home Savings; (iii) not extend additional credit to classified borrowers; (iv) revise its plan to reduce its classified assets, and, within six months, reduce total adversely classified assets to 75% of the level of classified assets as of May 31, 2011 (i.e., to \$219.0 million by September 30, 2012) and, within twelve months, to 50% of the level of classified assets as of May 31, 2011 (i.e., to \$146.0 million by March 31, 2013) (v) establish a comprehensive policy and

Table of Contents

methodology for determining the adequacy of the allowance for loan and lease losses (ALLL); (vi) adopt plans to reduce its classified assets and delinquent loans; (vii) adopt a plan to reduce certain loan concentrations; (viii) amend its strategic plan and budget and profit plan; (ix) increase its Tier 1 Leverage Capital Ratio to 9.0% and its Total Risk Based Capital Ratio to 12.0% by June 30, 2012, and revise its capital plan to achieve such capital levels; and (x) seek regulatory approval prior to declaring or paying any cash dividend.

On September 21, 2012, Home Savings completed a bulk sale of a substantial amount of the Bank's troubled loans, along with other assets, to an unrelated party. As a result of the transaction, Home Savings has now exceeded the asset quality targets set forth in its recent Consent Order, as follows:

	Balance as of September 30, 2012	Required Consent Order Threshold by September 30, 2012 (In thousands)	Required Consent Order Threshold by March 31, 2013
Classified Assets	\$ 78,579	\$ 219,150	\$ 146,100

The Bank's Tier 1 leverage ratio is 8.27%, after recording the loss from the bulk asset sale. While Home Savings is still operating under a Consent Order requiring a minimum Tier 1 leverage ratio of 9.0%, the Company worked closely with its regulators to keep them informed of the transaction and obtained their concurrence to complete the sale along with the Bank's commitment to meet the 9.0% requirement by March 31, 2013.

Classified assets include classified loans and real estate owned and other repossessed assets. Refer to Note 6 for a discussion of classified loans. Refer to Note 8 for a discussion of real estate owned and other repossessed assets. In keeping with its capital plan, the Company engaged an investment banking advisory firm in June 2011 to advise the board and management on the Company's strategic alternatives, including raising outside capital. The majority of any capital raised by United Community will be contributed to Home Savings, with the remainder to be used for general corporate purposes. The type, timing, amount and terms of possible securities that would be issued in such an offering have yet to be finalized.

A failure to comply with the provisions of the Consent Order or the Holding Company Order could result in additional enforcement actions by the FDIC, Ohio Division or the FRB.

The regulators, at their discretion, have the ability to place additional requirements on both Home Savings and United Community.

3. RECENT ACCOUNTING DEVELOPMENTS

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Company's operating results or financial condition.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented either in a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. The adoption of this amendment had no impact on the consolidated financial statements.

4. STOCK COMPENSATION**Stock Options:**

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On April 26, 2007, shareholders approved the United Community Financial Corp. 2007 Long-Term Incentive Plan (as amended, the 2007 Plan). The purpose of the 2007 Plan is to promote and advance the interests of United Community and its shareholders by enabling United Community to attract, retain and reward directors, directors emeritus, managerial and other key employees of United Community, including Home Savings, by facilitating their purchase of an ownership interest in United Community. The 2007 Plan provides for the issuance of up to 2,000,000 shares that are to be used for awards of restricted stock, stock options, performance awards, stock appreciation rights (SARs), or other forms of stock-based incentive awards. There were 1,875 stock options granted in

Table of Contents

the third quarter of 2012, all of which become exercisable on July 5, 2014. There were 2,757 stock options granted in the second quarter of 2012, all of which become exercisable on April 5, 2014. There were 4,629 stock options granted in the first quarter of 2012, all of which become exercisable on January 5, 2014. There were 3,866 stock options granted in the first quarter of 2011, all of which become exercisable on January 6, 2013. There were 12,746 stock options granted in the second quarter of 2011, 4,000 of which became exercisable on December 31, 2011, 4,000 of which become exercisable on December 31, 2012 and the remaining 4,746 of which become exercisable on April 7, 2013. There were 4,411 stock options granted in the third quarter of 2011, all of which become exercisable on July 7, 2013. There were 4,687 stock options granted in the fourth quarter of 2011, all of which become exercisable on October 6, 2013. The options must be exercised within 10 years from the date of grant.

On July 12, 1999, shareholders approved the United Community Financial Corp. 1999 Long-Term Incentive Plan (as amended, the 1999 Plan). The purpose of the 1999 Plan was the same as the 2007 Plan. The 1999 Plan terminated on May 20, 2009, although the 1999 Plan survives so long as options issued under the 1999 Plan remain outstanding and exercisable.

The 1999 Plan provided for the grant of either incentive or nonqualified stock options. Options were awarded at exercise prices that were not less than the fair market value of the share at the grant date. The maximum number of common shares that could be issued under the 1999 Plan was 3,569,766. Because the 1999 Plan terminated, no additional options may be issued under it. All of the options awarded became exercisable on the date of grant except that options granted in 2009 became exercisable over three years beginning on December 31, 2009. All options expire 10 years from the date of grant.

Expenses related to stock option grants are included with salaries and employee benefits. The Company recognized \$4,816 in stock option expenses for the three months ended September 30, 2012. The Company recognized \$13,042 in stock option expenses for the nine months ended September 30, 2012. The Company expects to recognize additional expense of \$4,659 for the remainder of 2012, \$10,311 in 2013, and \$2,812 in 2014.

A summary of activity in the plans is as follows:

	For the nine months ended September 30, 2012		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	1,992,132	\$ 6.63	
Granted	9,261	1.89	
Exercised	(1,000)	3.30	
Forfeited	(306,591)	7.20	
Outstanding at end of period	1,693,802	6.50	\$ 1,105
Options exercisable at end of period	1,657,336	6.61	\$ 1,032

Information related to the stock option plans for the nine months ended September 30, 2012 follows:

	September 30, 2012
Intrinsic value of options exercised	\$ 1,200
Cash received from option exercises	2,100
Tax benefit realized from option exercises	
Weighted average fair value of options granted, per share	\$ 1.21

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions including the risk-free interest rate, expected term, expected stock volatility, and dividend yield. Expected volatilities are based on historical volatilities of United Community's common shares. United Community uses historical data to estimate option exercises and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the

option is based on the U.S. Treasury yield curve in effect at the time of the grant.

Table of Contents

The fair value of options granted during the third quarter 2012 was determined using the following weighted-average assumptions as of the grant date.

	July 5, 2012
Risk-free interest rate	0.67%
Expected term (years)	5
Expected stock volatility	65.8%
Dividend yield	%

Outstanding stock options have a weighted average remaining life of 4.11 years and may be exercised in the range of \$1.20 to \$12.38.

Restricted Stock Awards:

The 2007 Plan permits the issuance of restricted stock awards to nonemployee directors. Compensation expense is recognized over the vesting period of the awards based on the market value of the shares at the grant date. A total of 395,380 restricted shares have been issued under the 2007 Plan, 292,733 of which were issued in 2012, 62,768 of which were issued in 2011 and 39,879 of which were issued in 2010. The grants in 2012 include 123,532 shares that vested immediately. The remaining 141,600 shares granted in 2012 vest equally over the three quarters ending June 30, 2012, September 30, 2012 and December 31, 2012. Restricted shares aggregating 27,601 shares issued in 2012 and those shares issued in 2011 and 2010 either have or will vest on the first anniversary of the grant date. Expenses related to restricted stock awards are included with salaries and employee benefits. The cost will be recognized over an average period of one year. The Company recognized approximately \$103,000 in restricted stock award expenses for the three months ended September 30, 2012. The Company recognized approximately \$604,000 in restricted stock award expenses for the nine months ended September 30, 2012. The Company expects to recognize additional expenses of approximately \$86,000 for the remainder of 2012, \$250,000 in 2013, and \$152,000 in 2014.

A summary of changes in the Company's nonvested restricted shares for the first nine months 2012 is as follows:

	Shares	Weighted average grant date fair value
Nonvested shares at January 1, 2012	59,019	\$ 1.30
Granted	292,733	1.35
Vested	(277,976)	1.30
Nonvested shares at September 30, 2012	73,776	\$ 1.48

Table of Contents**5. SECURITIES**

Components of the available for sale portfolio are as follows:

	Amortized cost	September 30, 2012		Fair value
		Gross unrealized gains	Gross unrealized losses	
<i>(Dollars in thousands)</i>				
Available for Sale				
U.S. Treasury and government sponsored entities securities	\$ 85,589	\$ 2,478	\$	\$ 88,067
Equity securities	113	200		313
Mortgage-backed GSE securities: residential	452,445	10,970		463,415
Total	\$ 538,147	\$ 13,648	\$	\$ 551,795

	Amortized cost	December 31, 2011		Fair value
		Gross unrealized gains	Gross unrealized losses	
<i>(Dollars in thousands)</i>				
Available for Sale				
U.S. Treasury and government sponsored entities securities	\$ 50,003	\$ 797	\$	\$ 50,800
Equity securities	114	149		263
Mortgage-backed GSE securities: residential	403,943	4,592		408,535
Total	\$ 454,060	\$ 5,538	\$	\$ 459,598

Debt securities available for sale by contractual maturity, repricing or expected call date are shown below:

	September 30, 2012	
	Amortized cost	Fair value
<i>(Dollars in thousands)</i>		
Due in one year or less	\$	\$
Due after one year through five years		
Due after five years through ten years	54,455	56,197
Due after ten years through fifteen years	31,134	31,870
Mortgage-backed GSE securities: residential	452,445	463,415
Total	\$ 538,034	\$ 551,482

Securities pledged to collateralize the processing of Visa transactions were approximately \$5.8 million at September 30, 2012 and \$5.7 million at December 31, 2011. Securities pledged for participation in the Ohio Linked Deposit Program were approximately \$419,000 and \$418,000 at September 30, 2012 and December 31, 2011, respectively. Securities sold under an agreement to repurchase are secured primarily by mortgage-backed securities with a fair value of approximately \$131.5 million at September 30, 2012, and \$115.4 million at December 31, 2011.

United Community had no securities available for sale in an unrealized loss position at September 30, 2012, or December 31, 2011.

Proceeds from sales of securities available for sale were \$57.5 million and \$85.9 million for the three months ended September 30, 2012 and 2011, respectively. Gross gains of \$1.2 million and \$2.0 million were realized on these sales during the third quarter of 2012 and 2011, respectively.

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Proceeds from sales of securities available for sale were \$286.9 million and \$201.9 million for the nine months ended September 30, 2012 and 2011, respectively. Gross gains of \$5.2 million and \$3.5 million were realized on these sales during the first nine months of 2012 and 2011, respectively.

Table of Contents

The Company evaluates its equity securities for impairment on a quarterly basis. In general, if a security has been in an unrealized loss position for more than twelve months, the Company will realize an Other Than Temporary Impairment (OTTI) charge on the security. If the security has been in an unrealized loss position for less than twelve months, the Company examines the capital levels, nonperforming asset ratios, and liquidity position of the issuer to determine whether or not an OTTI charge is appropriate.

The Company recognized a \$35,000 OTTI charge on equity investments with holdings of four other financial institutions in the third quarter of 2011. One financial institution consented to a regulatory enforcement action, diminishing the chance of fair value recovery in the foreseeable future. The other investments were trading below book value and management was not able to determine with reasonable certainty that recovery would occur in the near-term. The Company recognized a \$73,000 OTTI charge on equity investments in four other financial institutions in the first nine months of 2011.

6. LOANS

On September 21, 2012, Home Savings sold assets in a bulk sale transaction, which was comprised primarily of loans. Loans included in the bulk sale had an unpaid principal balance of \$146.7 million. These loans had a recorded investment as of the closing date of \$113.7 million. Of these loans, \$91.6 million were classified, \$63.3 million were nonperforming and \$53.0 million were noncurrent (all figures are book balance prior to the effect of any reserves). The loans included in the bulk sale had reserves totaling \$8.0 million, for a net book balance of \$105.7 million.

Portfolio loans consist of the following:

	September 30, 2012	December 31, 2011
	<i>(Dollars in thousands)</i>	
Real Estate:		
One-to four-family residential	\$ 587,220	\$ 667,375
Multi-family residential	82,518	120,991
Nonresidential	150,693	276,198
Land	16,363	23,222
Construction:		
One-to four-family residential and land development	32,483	59,339
Multi-family and nonresidential	4,480	4,528
Total real estate	873,757	1,151,653
Consumer		
Home equity	183,570	191,827
Auto	8,198	8,933
Marine	5,047	5,900
Recreational vehicles	23,500	28,530
Other	2,680	3,207
Total consumer	222,995	238,397
Commercial		
Secured	19,851	25,120
Unsecured	2,332	5,026
Total commercial	22,183	30,146
Total loans	1,118,935	1,420,196
Less:		
Allowance for loan losses	20,048	42,271
Deferred loan costs, net	(1,441)	(1,351)

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Total	18,607	40,920
Loans, net	\$ 1,100,328	\$ 1,379,276

Loan commitments are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments extend over various periods of time with the majority of such commitments disbursed within a sixty-day period. Commitments generally have fixed expiration dates or other termination clauses, may require payment of a fee and may expire unused.

Table of Contents

Commitments to extend credit at fixed rates expose Home Savings to some degree of interest rate risk. Home Savings evaluates each customer's creditworthiness on a case-by-case basis. The type or amount of collateral obtained varies and is based on management's credit evaluation of the potential borrower. Home Savings normally has a number of outstanding commitments to extend credit.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of September 30, 2012 and December 31, 2011 and activity for the three and nine months ended September 30, 2012 and 2011.

	Allowance For Loan Losses (Dollars in thousands)					
	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
For the three months ended September 30, 2012						
Beginning balance (06/30/12)	\$ 22,121	\$ 2,490	\$ 4,805	\$ 1,517	\$	\$ 30,933
Provision	27,905	1,678	1,288	(592)		30,279
Chargeoffs	(2,267)	(543)	(839)	(233)		(3,882)
Recoveries	468	139	125	144		876
Net (chargeoffs) recovery from asset sale	(35,744)	(2,134)	(822)	542		(38,158)
Net (chargeoffs) recovery	(37,543)	(2,538)	(1,536)	453		(41,164)
Ending balance (09/30/12)	\$ 12,483	\$ 1,630	\$ 4,557	\$ 1,378	\$	\$ 20,048
For the nine months ended September 30, 2012						
Beginning balance (12/31/11)	\$ 31,323	\$ 4,493	\$ 4,576	\$ 1,879	\$	\$ 42,271
Provision	32,539	2,293	2,422	(31)		37,223
Chargeoffs	(16,328)	(3,213)	(2,198)	(1,207)		(22,946)
Recoveries	693	191	579	195		1,658
Net (chargeoffs) recovery from asset sale	(35,744)	(2,134)	(822)	542		(38,158)
Net chargeoffs	(51,379)	(5,156)	(2,441)	(470)		(59,446)
Ending balance (09/30/12)	\$ 12,483	\$ 1,630	\$ 4,557	\$ 1,378	\$	\$ 20,048
Period-end amount allocated to:						
Loans individually evaluated for impairment	\$ 1,281	\$ 664	\$ 18	\$ 166	\$	\$ 2,129
Loans collectively evaluated for impairment	11,202	996	4,539	1,212		17,919
Ending balance	\$ 12,483	\$ 1,630	\$ 4,557	\$ 1,378	\$	\$ 20,048
Period-end balances:						
Loans individually evaluated for impairment	\$ 41,562	\$ 9,980	\$ 5,858	\$ 1,844	\$	\$ 59,244
Loans collectively evaluated for impairment	795,232	26,983	217,137	20,339		1,059,691
Ending balance	\$ 836,794	\$ 36,963	\$ 222,995	\$ 22,183	\$	\$ 1,118,935

The ASC 310 reserve, or where applicable the ASC 450 reserve, as it related to loans included in the bulk asset sale were treated as chargeoffs in the ASC 450 methodology of determining loan loss ratios.

Reserves from loans included in the asset sale mentioned above were treated as charges against the allowance in the third quarter of 2012.

Table of ContentsAllowance For Loan Losses
(Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
For the three months ended September 30, 2011						
Beginning balance (06/30/11)	\$ 31,371	\$ 6,529	\$ 4,544	\$ 3,779	\$	\$ 46,223
Provision	7,065	4,734	1,105	(1,068)		11,836
Chargeoffs	(5,536)	(6,832)	(1,000)	(952)		(14,320)
Recoveries	168	95	136	24		423
Net chargeoffs	(5,368)	(6,737)	(864)	(928)		(13,897)
Ending balance (09/30/11)	\$ 33,068	\$ 4,526	\$ 4,785	\$ 1,783	\$	\$ 44,162
For the nine months ended September 30, 2011						
Beginning balance (12/31/10)	\$ 28,066	\$ 8,533	\$ 5,260	\$ 9,024	\$	\$ 50,883
Provision	17,057	6,285	1,887	(2,957)		22,272
Chargeoffs	(12,709)	(10,589)	(2,797)	(4,481)		(30,576)
Recoveries	654	297	435	197		1,583
Net chargeoffs	(12,055)	(10,292)	(2,362)	(4,284)		(28,993)
Ending balance (09/30/11)	\$ 33,068	\$ 4,526	\$ 4,785	\$ 1,783	\$	\$ 44,162
December 31, 2011						
Period-end amount allocated to:						
Loans individually evaluated for impairment	\$ 8,275	\$ 3,102	\$ 236	\$ 210	\$	\$ 11,823
Loans collectively evaluated for impairment	23,048	1,391	4,340	1,669		30,448
Ending balance	\$ 31,323	\$ 4,493	\$ 4,576	\$ 1,879	\$	\$ 42,271
Period-end balances:						
Loans individually evaluated for impairment	\$ 115,290	\$ 30,587	\$ 3,734	\$ 3,956	\$	\$ 153,567
Loans collectively evaluated for impairment	972,496	33,280	234,663	26,190		1,266,629
Ending balance	\$ 1,087,786	\$ 63,867	\$ 238,397	\$ 30,146	\$	\$ 1,420,196

The unpaid principal balance is the total amount of the loan that is due to Home Savings. The recorded investment includes the unpaid principal balance less any chargeoffs or partial chargeoffs applied to specific loans. The unpaid principal balance and the recorded investment both exclude accrued interest receivable and deferred loan costs, both of which are immaterial.

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine months ended September 30, 2012:

	Impaired Loans (Dollars in thousands)		Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
	Unpaid Principal Balance	Recorded Investment				
With no specific allowance recorded						
Permanent real estate						
One-to four-family residential	\$ 17,027	\$ 15,594	\$	\$ 25,431	\$ 424	\$ 461
Multifamily residential	610	515		3,363		9
Nonresidential	11,308	11,145		23,348	22	62
Land	4,584	3,811		5,789	0	3
Total	33,529	31,065		57,931	446	535
Construction loans						
One-to four-family residential	6,465	2,553		8,289	9	21
Multifamily and nonresidential	587					
Total	7,052	2,553		8,289	9	21
Consumer loans						
Home Equity	5,921	4,956		4,365	133	163
Auto	72	52		56		4
Marine	170	170		220		9
Recreational vehicle	912	637		514		37
Other	7	7		7		1
Total	7,082	5,822		5,162	133	214
Commercial loans						
Secured	2,298	1,378		1,948	18	97
Unsecured	3,066	43		344	1	12
Total	5,364	1,421		2,292	19	109
Total	\$ 53,027	\$ 40,861	\$	\$ 73,674	\$ 607	\$ 879

Table of Contents

	Impaired Loans (Dollars in thousands)		Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
	Unpaid Principal Balance	Recorded Investment				
With a specific allowance recorded						
Permanent real estate						
One-to four-family residential	\$	\$	\$	\$ 1,489	\$	\$
Multifamily residential	1,026	1,011	57	2,742		17
Nonresidential	8,168	7,115	956	25,788	55	74
Land	4,588	2,371	268	3,226		12
Total	13,782	10,497	1,281	33,245	55	103
Construction loans						
One-to four-family residential	21,648	7,427	664	13,032	15	27
Multifamily and nonresidential						
Total	21,648	7,427	664	13,032	15	27
Consumer loans						
Home Equity						
Auto						
Marine				121		
Recreational vehicle	88	36	18	36		
Other						
Total	88	36	18	157		
Commercial loans						
Secured	798	423	166	488		3
Unsecured				19		
Total	798	423	166	507		3
Total	\$ 36,316	\$ 18,383	\$ 2,129	\$ 46,941	\$ 70	\$ 133
Total	\$ 89,343	\$ 59,244	\$ 2,129	\$ 120,615	\$ 677	\$ 1,012

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of and for the quarter ended September 30, 2012:

	Impaired Loans (Dollars in thousands)		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 22,316	\$ 194	\$ 205
Multifamily residential	2,688		1
Nonresidential	17,943	9	22
Land	4,804		
Total	47,751	203	228
Construction loans			
One-to four-family residential	5,157	3	7
Multifamily and nonresidential			
Total	5,157	3	7
Consumer loans			
Home Equity	4,953	50	64
Auto	55		1
Marine	262		4
Recreational vehicle	648		16
Other	7		
Total	5,925	50	85
Commercial loans			
Secured	1,438	6	28
Unsecured	125		3
Total	1,563	6	31
Total	\$ 60,396	\$ 262	\$ 351

Table of Contents

Impaired Loans (Dollars in thousands)				
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized	
With a specific allowance recorded				
Permanent real estate				
One-to four-family residential	\$ 1,802	\$	\$	
Multifamily residential	3,102			
Nonresidential	15,467	18		22
Land	2,755			
Total	23,126	18		22
Construction loans				
One-to four-family residential	9,913	5		8
Multifamily and nonresidential				
Total	9,913	5		8
Consumer loans				
Home Equity				
Auto				
Marine				
Recreational vehicle	36			
Other				
Total	36			
Commercial loans				
Secured	504			
Unsecured				
Total	504			
Total	\$ 33,579	\$ 23		\$ 30
Total	\$ 93,975	\$ 285		\$ 381

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2011:

	Impaired Loans (Dollars in thousands)		Allowance for Loan Losses Allocated
	Unpaid Principal Balance	Recorded Investment	
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 32,372	\$ 28,566	\$
Multifamily residential	5,112	4,205	
Nonresidential	29,120	28,327	
Land	9,213	7,290	
Total	75,817	68,388	
Construction loans			
One-to four-family residential	19,081	12,532	
Multifamily and nonresidential	707		
Total	19,788	12,532	
Consumer loans			
Home Equity	4,908	3,139	
Auto	80	59	
Marine			
Recreational vehicle	26	11	
Other	7	7	
Total	5,021	3,216	
Commercial loans			
Secured	3,875	3,084	
Unsecured	22,716	371	
Total	26,591	3,455	
Total	\$ 127,217	\$ 87,591	\$

Table of Contents

	Impaired Loans (Dollars in thousands)		
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 2,487	\$ 1,721	\$ 152
Multifamily residential	4,077	2,387	187
Nonresidential	42,201	38,176	6,127
Land	5,074	4,618	1,809
Total	53,839	46,902	8,275
Construction loans			
One-to four-family residential	35,759	18,055	3,102
Multifamily and nonresidential			
Total	35,759	18,055	3,102
Consumer loans			
Home Equity			
Auto			
Marine	482	482	218
Recreational vehicle	88	36	18
Other			
Total	570	518	236
Commercial loans			
Secured	776	427	136
Unsecured	105	74	74
Total	881	501	210
Total	91,049	65,976	11,823
Total	\$ 218,266	\$ 153,567	\$ 11,823

Table of Contents

The following table presents the average recorded investment and interest income associated with impaired loans for the three months ended September 30, 2011:

	Impaired Loans (Dollars in thousands)		Cash Basis Income Recognized
	Average Recorded Investment	Interest Income Recognized	
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 24,302	\$ 177	\$ 502
Multifamily residential	4,249		
Nonresidential	25,770	206	544
Land	6,678	(30)	24
Total	60,999	353	1,070
Construction loans			
One-to four-family residential	14,976	89	13
Multifamily and nonresidential			
Total	14,976	89	13
Consumer loans			
Home Equity	1,045	(3)	5
Auto	72	1	4
Marine			
Recreational vehicle	47		
Other	7		
Total	1,171	(2)	9
Commercial loans			
Secured	957	15	21
Unsecured	429	8	126
Total	1,386	23	147
Total	\$ 78,532	\$ 463	\$ 1,239

Table of Contents

(Continued)

	Impaired Loans (Dollars in thousands)		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 4,589	\$ 72	\$ 101
Multifamily residential	2,853		133
Nonresidential	39,583	794	864
Land	3,494	370	504
Total	50,519	1,236	1,602
Construction loans			
One-to four-family residential	24,858	(9)	349
Multifamily and nonresidential			
Total	24,858	(9)	349
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	7,242	(107)	192
Unsecured	869		1
Total	8,111	(107)	193
Total	\$ 83,488	\$ 1,120	\$ 2,144
Total	\$ 162,020	\$ 1,583	\$ 3,383

Table of Contents

The following table presents the average recorded investment and interest income associated with impaired loans for the nine months ended September 30, 2011:

	Impaired Loans (Dollars in thousands)		Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded					
Permanent real estate					
One-to four-family residential			\$ 25,002	\$ 510	\$ 1,004
Multifamily residential			3,441		148
Nonresidential			22,847	524	1,247
Land			6,244	15	126
Total			57,534	1,049	2,525
Construction loans					
One-to four-family residential			17,939	219	280
Multifamily and nonresidential			191		
Total			18,130	219	280
Consumer loans					
Home Equity					
Auto			1,194	2	29
Marine			67	1	9
Recreational vehicle			47		2
Other			7		
Total			1,315	3	40
Commercial loans					
Secured			1,270	35	43
Unsecured			407	13	163
Total			1,677	48	206
Total			\$ 78,656	\$ 1,319	\$ 3,051

Table of Contents

(Continued)

	Impaired Loans (Dollars in thousands)		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 2,809	\$ 111	\$ 168
Multifamily residential	5,175		170
Nonresidential	40,139	1,527	1,888
Land	1,960	382	527
Total	50,083	2,020	2,753
Construction loans			
One-to four-family residential	25,472	110	694
Multifamily and nonresidential			
Total	25,472	110	694
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	6,146	20	473
Unsecured	2,164		37
Total	8,310	20	510
Total	83,865	2,150	3,957
Total	\$ 162,521	\$ 3,469	\$ 7,008

Table of Contents

The following tables present the recorded investment in nonaccrual and loans past due over 90 days and still on accrual by class of loans as of September 30, 2012:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing
As of September 30, 2012
(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	\$ 5,817	\$
Multifamily residential	1,512	
Nonresidential	17,484	
Land	6,228	
Total	31,041	
Construction Loans		
One-to four-family residential	9,527	
Multifamily and nonresidential		
Total	9,527	
Consumer Loans		
Home Equity	3,271	47
Auto	118	
Marine	158	
Recreational vehicle	1,307	
Other	20	
Total	4,874	47
Commercial Loans		
Secured	1,055	
Unsecured	13	
Total	1,068	
Total	\$ 46,510	\$ 47

Table of Contents

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing
As of December 31, 2011
(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	\$ 26,637	\$
Multifamily residential	5,860	
Nonresidential	42,902	
Land	11,142	
Total	86,541	
Construction Loans		
One-to four-family residential	27,104	
Multifamily and nonresidential		
Total	27,104	
Consumer Loans		
Home Equity	4,198	39
Auto	170	
Marine	479	
Recreational vehicle	1,725	
Other	9	
Total	6,581	39
Commercial Loans		
Secured	2,483	
Unsecured	347	
Total	2,830	
Total	\$ 123,056	\$ 39

Table of Contents

The following tables present an age analysis of past-due loans, segregated by class of loans as of September 30, 2012:

	Past Due Loans (Dollars in thousands)			Total Past Due	Current Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due			
Real Estate Loans						
Permanent						
One-to four-family residential	\$ 2,425	\$ 795	\$ 4,822	\$ 8,042	\$ 579,178	\$ 587,220
Multifamily residential	3,439		1,512	4,951	77,567	82,518
Nonresidential	122	20	16,632	16,774	133,919	150,693
Land		11	6,221	6,232	10,131	16,363
Total	5,986	826	29,187	35,999	800,795	836,794
Construction Loans						
One-to four-family residential			9,389	9,389	23,094	32,483
Multifamily and nonresidential					4,480	4,480
Total			9,389	9,389	27,574	36,963
Consumer Loans						
Home Equity	763	464	2,456	3,683	179,887	183,570
Auto	22	6	87	115	8,083	8,198
Marine	461	6		467	4,580	5,047
Recreational vehicle	1,108	175	174	1,457	22,043	23,500
Other	10		18	28	2,652	2,680
Total	2,364	651	2,735	5,750	217,245	222,995
Commercial Loans						
Secured			69	69	19,782	19,851
Unsecured			13	13	2,319	2,332
Total			82	82	22,101	22,183
Total	\$ 8,350	\$ 1,477	\$ 41,393	\$ 51,220	\$ 1,067,715	\$ 1,118,935

Table of Contents

The following table presents an age analysis of past-due loans, segregated by class of loans as of December 31, 2011:

	Past Due Loans (Dollars in thousands)			Total Past Due	Current Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due			
Real Estate Loans						
Permanent						
One-to four-family residential	\$ 2,878	\$ 1,928	\$ 20,124	\$ 24,930	\$ 642,445	\$ 667,375
Multifamily residential	1,405		4,564	5,969	115,022	120,991
Nonresidential	6,820	971	41,151	48,942	227,256	276,198
Land	167	530	9,705	10,402	12,820	23,222
Total	11,270	3,429	75,544	90,243	997,543	1,087,786
Construction Loans						
One-to four-family residential	979	1,718	24,608	27,305	32,034	59,339
Multifamily and nonresidential					4,528	4,528
Total	979	1,718	24,608	27,305	36,562	63,867
Consumer Loans						
Home Equity	1,485	601	2,749	4,835	186,992	191,827
Auto	73	13	87	173	8,760	8,933
Marine	184		479	663	5,237	5,900
Recreational vehicle	867	754	1,044	2,665	25,865	28,530
Other	57	1	7	65	3,142	3,207
Total	2,666	1,369	4,366	8,401	229,996	238,397
Commercial Loans						
Secured	554		96	650	24,470	25,120
Unsecured	69		237	306	4,720	5,026
Total	623		333	956	29,190	30,146
Total	\$ 15,538	\$ 6,516	\$ 104,851	\$ 126,905	\$ 1,293,291	\$ 1,420,196

During the period ended September 30, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. Modifications involving a reduction of the stated interest rate of a loan were for periods ranging from six months to 28 years. Modifications involving an extension of the maturity date were for periods ranging from six months to three years.

Restructured loans were \$21.5 million and \$50.9 million at September 30, 2012 and December 31, 2011, respectively. The Company has allocated \$631,000 of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of September 30, 2012. The Company had allocated \$2.0 million of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of December 31, 2011. Troubled debt restructurings are considered impaired and are included in the table above.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended September 30, 2012:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post- Modification Recorded Investment
Real Estate Loans			
Permanent			
One-to four-family	17	\$ 537	\$ 537
Multifamily residential			
Nonresidential			
Land			
Total	17	537	537
Construction Loans			
One-to four-family residential			
Multifamily and nonresidential			
Total			
Consumer Loans			
Home Equity	19	2,711	2,792
Auto			
Marine			
Recreational vehicle			
Other			
Total	19	2,711	2,792
Commercial Loans			
Secured			
Unsecured			
Total			
Total Restructured Loans	36	\$ 3,248	\$ 3,329

The troubled debt restructurings described above increased the allowance for loan losses by \$367,000 but did not result in any chargeoffs during the three months ended September 30, 2012.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the nine months ended September 30, 2012:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post- Modification Recorded Investment
Real Estate Loans			
Permanent			
One-to four-family	38	\$ 2,843	\$ 2,801
Multifamily residential	6	1,439	1,438
Nonresidential	1	424	424
Land			
Total	45	4,706	4,663
Construction Loans			
One-to four-family residential	3	853	830
Multifamily and nonresidential			
Total	3	853	830
Consumer Loans			
Home Equity	61	4,494	4,544
Auto			
Marine			
Recreational vehicle			
Other			
Total	61	4,494	4,544
Commercial Loans			
Secured			
Unsecured	1	446	446
Total	1	446	446
Total Restructured Loans	110	\$ 10,499	\$ 10,483

The troubled debt restructurings described above increased the allowance for loan losses by \$367,000 but did not result in any chargeoffs during the nine months ended September 30, 2012.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended September 30, 2012:

	Number of loans	Recorded Investment
Real Estate Loans		
Permanent		
One-to four-family	7	\$ 708
Multifamily residential		
Nonresidential	3	1,194
Land		
Total	10	1,902
Construction Loans		
One-to four-family residential	4	562
Multifamily and nonresidential		
Total	4	562
Consumer Loans		
Home Equity	3	152
Auto		
Marine		
Recreational vehicle		
Other		
Total	3	152
Commercial Loans		
Secured		
Unsecured		
Total		
Total Restructured Loans	17	\$ 2,616

A troubled debt restructuring is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The troubled debt restructurings that subsequently defaulted described above resulted in no chargeoffs during the three and nine months ended September 30, 2012, respectively, and had no effect on the provision for loan losses.

The terms of certain other loans were modified during the period ended September 30, 2012 that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of September 30, 2012 of \$2.8 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be significant.

In order to determine whether a borrower is experiencing financial difficulty an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company's internal underwriting policy.

Credit Quality Indicators:

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The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes homogeneous loans past due 90 cumulative days, and all non-homogeneous loans including commercial loans and commercial real estate loans. Smaller balance homogeneous loans are primarily monitored by payment status.

Table of Contents

Asset quality ratings are divided into two groups: Pass (unclassified) and Classified. Within the unclassified group, loans that display potential weakness are risk rated as special mention. In addition, there are three classified risk ratings: substandard, doubtful and loss. These specific credit risk categories are defined as follows:

Special Mention. Loans classified as special mention have potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Loans may be housed in this category for no longer than 12 months during which time information is obtained to determine if the credit should be downgraded to the substandard category.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loss. Loans classified as loss are considered uncollectible and of such little value, that continuance as assets is not warranted. Although there may be a chance of recovery on these assets, it is not practical or desirable to defer writing off the asset.

The Company monitors loans on a monthly basis to determine if they should be included in one of the categories listed above. All impaired non-homogeneous credits classified as Substandard, Doubtful or Loss are analyzed on an individual basis for a specific reserve requirement. This analysis is performed on each individual credit at least annually or more frequently if warranted.

Table of Contents

As of September 30, 2012 and December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Loans						Total Classified	Total Loans
	September 30, 2012 (Dollars in thousands)							
	Unclassified			Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss			
Real Estate Loans								
Permanent								
One-to four-family residential	\$ 578,188	\$ 459	\$ 8,573	\$	\$	\$ 8,573	\$ 587,220	
Multifamily Residential	67,664	11,376	3,478			3,478	82,518	
Nonresidential	110,218	18,782	21,693			21,693	150,693	
Land	9,797	390	6,176			6,176	16,363	
Total	765,867	31,007	39,920			39,920	836,794	
Construction Loans								
One-to four-family Residential	22,288	198	9,997			9,997	32,483	
Multifamily and nonresidential	4,480						4,480	
Total	26,768	198	9,997			9,997	36,963	
Consumer Loans								
Home Equity	180,204		3,366			3,366	183,570	
Auto	7,843	227	128			128	8,198	
Marine	4,869	8	170			170	5,047	
Recreational vehicle	22,128		1,372			1,372	23,500	
Other	2,653		27			27	2,680	
Total	217,697	235	5,063			5,063	222,995	
Commercial Loans								
Secured	16,683	555	2,613			2,613	19,851	
Unsecured	1,552		780			780	2,332	
Total	18,235	555	3,393			3,393	22,183	
Total	\$ 1,028,567	\$ 31,995	\$ 58,373	\$	\$	\$ 58,373	\$ 1,118,935	

Table of Contents

Loans

December 31, 2011
(Dollars in thousands)

	Unclassified			Classified		Total Classified	Total Loans
	Unclassified	Special Mention	Substandard	Doubtful	Loss		
Real Estate Loans							
Permanent							
One-to four-family residential	\$ 626,072	\$ 4,094	\$ 37,209	\$	\$	\$ 37,209	\$ 667,375
Multifamily residential	90,820	8,392	21,779			21,779	120,991
Nonresidential	149,314	18,388	108,496			108,496	276,198
Land	10,475	1,200	11,547			11,547	23,222
Total	876,681	32,074	179,031			179,031	1,087,786
Construction Loans							
One-to four-family residential	28,396	2,394	28,520	29		28,549	59,339
Multifamily and nonresidential	4,528						4,528
Total	32,924	2,394	28,520	29		28,549	63,867
Consumer Loans							
Home Equity	187,153	269	4,405			4,405	191,827
Auto	8,738	12	183			183	8,933
Marine	5,418		482			482	5,900
Recreational vehicle	26,728		1,802			1,802	28,530
Other	3,192		15			15	3,207
Total	231,229	281	6,887			6,887	238,397
Commercial Loans							
Secured	20,895	263	3,962			3,962	25,120
Unsecured	2,861	166	1,999			1,999	5,026
Total	23,756	429	5,961			5,961	30,146
Total	\$ 1,164,590	\$ 35,178	\$ 220,399	\$ 29	\$	\$ 220,428	\$ 1,420,196

Table of Contents**7. MORTGAGE BANKING ACTIVITIES**

Mortgage loans serviced for others, which are not reported in United Community's assets, totaled \$1.2 billion at September 30, 2012, and \$1.1 billion December 31, 2011.

Activity for capitalized mortgage servicing rights, included in other assets, was as follows:

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	<i>(Dollars in thousands)</i>	
Balance, beginning of year	\$ 6,375	\$ 6,400
Originations	1,738	1,409
Amortized to expense	(1,923)	(1,560)
Balance, end of period	6,190	6,249
Less valuation allowance	(2,016)	(1,415)
Net balance	\$ 4,174	\$ 4,834

Activity in the valuation allowance for mortgage servicing rights was as follows:

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
	<i>(Dollars in thousands)</i>	
Balance, beginning of year	\$ (1,785)	\$ (285)
Impairment charges	(1,179)	(1,357)
Recoveries	948	227
Balance, end of period	\$ (2,016)	\$ (1,415)

The fair value of mortgage servicing rights as of September 30, 2012, was approximately \$5.4 million and at December 31, 2011, was approximately \$5.9 million.

Key economic assumptions in measuring the value of mortgage servicing rights at September 30, 2012, and December 31, 2011, were as follows:

	September 30, 2012	December 31, 2011
Weighted average prepayment rate	547 PSA	475 PSA
Weighted average life (in years)	3.86	3.70
Weighted average discount rate	8%	8%

Table of Contents

8. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at September 30, 2012 and 2011 were as follows:

	September 30, 2012	September 30, 2011
	<i>(Dollars in thousands)</i>	
Real estate owned and other repossessed assets	\$ 27,085	\$ 46,668
Valuation allowance	(6,879)	(8,352)
End of period	\$ 20,206	\$ 38,316

Activity in the valuation allowance was as follows:

	September 30, 2012	September 30, 2011
	<i>(Dollars in thousands)</i>	
Beginning of year	\$ 8,764	\$ 7,332
Additions charged to expense	1,805	4,040
Direct write-downs	(3,690)	(3,020)
End of period	\$ 6,879	\$ 8,352

In connection with the bulk asset sale, Home Savings sold 10 properties that had a combined carrying value of \$1.1 million. The loss realized on those disposals aggregated \$413,000.

Expenses related to foreclosed and repossessed assets include:

	For the three months ended September 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Net loss on sales	\$ 210	\$ 395
Net loss on sales from bulk asset transaction	413	
Provision for unrealized losses, net	1,172	2,232
Operating expenses, net of rental income	383	361
Total expenses	\$ 2,178	\$ 2,988

	For the nine months ended September 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Net loss on sales	\$ 1,229	\$ 941
Net loss on sales from bulk asset transaction	413	
Provision for unrealized losses, net	1,805	4,040
Operating expenses, net of rental income	1,504	2,125
Total expenses	\$ 4,951	\$ 7,106

Table of Contents**9. OTHER POSTRETIREMENT BENEFIT PLANS**

Home Savings sponsors a defined benefit health care plan that was curtailed in 2000, but continues to provide postretirement medical benefits for employees who had worked 20 years and attained a minimum age of 60 by September 1, 2000, while in service with Home Savings. The plan is contributory and contains minor cost-sharing features such as deductibles and coinsurance. In addition, postretirement life insurance coverage is provided for employees who were participants prior to December 10, 1976. The life insurance plan is non-contributory. Home Savings policy is to pay premiums monthly, with no pre-funding.

Components of net periodic benefit cost are as follows:

	Three Months Ended September 30,	
	2012	2011
	(In thousands)	
Service cost	\$	\$
Interest cost	19	33
Expected return on plan assets		
Net amortization (accretion) of prior service cost	(20)	(1)
Recognized net actuarial gain	(23)	(19)
Net periodic benefit cost	\$ (24)	\$ 13
Assumptions used in the valuations were as follows:		
Weighted average discount rate	4.00%	5.00%

	Nine Months Ended September 30,	
	2012	2011
	(Dollars in thousands)	
Service cost	\$	\$
Interest cost	57	99
Expected return on plan assets		
Net amortization of prior service cost	(59)	(1)
Recognized net actuarial gain	(69)	(57)
Net periodic benefit cost	\$ (71)	\$ 41
Assumptions used in the valuations were as follows:		
Weighted average discount rate	4.00%	5.00%

10. FAIR VALUE MEASUREMENT

Fair value is the exchange price that would be received for an asset if paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own beliefs about the assumptions that market participants would use in pricing an asset or liability.

Table of Contents

United Community uses the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Available for sale securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

Impaired loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other real estate owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Special Assets Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with the independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value.

Mortgage servicing rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts (Level 1), when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2).

Loans held for sale: Loans held for sale are carried at the lower of cost or fair value, which is evaluated on a pool-level basis. The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors (Level 2).

Interest rate caps: The Company uses an independent third party that performs a market valuation analysis for interest rate caps. The methodology used consists of a discounted cash flow model, all future floating cash flows are projected and both floating and fixed cash flows are discounted to the valuation date. The yield curve utilized for discounting and projecting is built by obtaining publicly available third party market quotes from Reuters, which handle up to 30-year swap maturities (Level 3).

Table of Contents

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	September 30, 2012	Fair Value Measurements at September 30, 2012 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	\$ 88,067	\$	\$ 88,067	\$
Equity securities	313	313		
Mortgage-backed GSE securities: residential	463,415		463,415	
Interest rate caps	510			510

	December 31, 2011	Fair Value Measurements at December 31, 2011 Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	\$ 50,800	\$	\$ 50,800	\$
Equity securities	263	263		
Mortgage-backed GSE securities: residential	408,535		408,535	
Interest rate caps	1,933			1,933

There were no transfers between Level 1 and Level 2 during 2012 or 2011.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2012, in thousands:

	Interest Rate Caps	
	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Balance of recurring Level 3 assets at beginning of period	\$ 831	\$ 1,933
Total gains (losses) for the period		
Included in other income	(234)	(1,077)
Included in other comprehensive income		
Purchases		
Amortization	(87)	(346)

Sales

Balance of recurring Level 3 assets at end of period	\$ 510	\$	510
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Table of Contents

The Company had no interest rate caps as of September 30, 2011.

There were no transfers between Level 2 and Level 3 during 2012 or 2011.

The following table presents quantitative information about recurring Level 3 fair value measurements at September 30, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
	<i>(In thousands)</i>			
Interest rate caps		Discounted		
	\$ 510	cash flow	Discount rate	0.47%-1.5%

The fair value of interest rate caps was determined using proprietary models from third-party sources taking into account such factors as size of the transaction, the lack of a quoted market and the custom-tailored nature of the transaction. The fair value is inclusive of interest accruals, as applicable.

Assets and Liabilities Measured on a Non-Recurring Basis: Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	September 30, 2012	Fair Value Measurements at September 30, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)		
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	<i>(In thousands)</i>			
Assets:				
Impaired loans:				
Permanent real estate loans	\$ 40,281	\$	\$	\$ 40,281
Construction loans	9,316			9,316
Consumer loans	5,840			5,840
Commercial loans	1,678			1,678
Mortgage servicing assets	3,728	3,728		
Other real estate owned, net:				
Permanent real estate loans	4,448			4,448
Construction loans	7,167			7,167

Table of ContentsFair Value Measurements at December 31, 2011 Using:
Quoted Prices

	December 31, 2011	in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
Assets:				
Impaired loans:				
Permanent real estate loans	\$ 38,627	\$	\$	\$ 38,627
Construction loans	14,953			14,953
Consumer loans	282			282
Commercial loans	291			291
Mortgage servicing assets	3,921		3,921	
Other real estate owned, net:				
Permanent real estate loans	7,586			7,586
Construction loans	7,581			7,581

Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$57.1 million at September 30, 2012, with a specific valuation allowance of \$2.1 million. This resulted in a decrease of the provision for loan losses of \$2.3 million during the three months ended September 30, 2012 and a decrease of the provision for loan losses of \$794,000 during the nine months ended September 30, 2012. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$86.9 million at September 30, 2011, with a specific valuation allowance of \$12.2 million. This resulted in an additional provision for loan losses of \$1.8 million during the three months ended September 30, 2011 and \$12.6 million for the nine months ended September 30, 2011. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$66.0 million at December 31, 2011, with a specific valuation allowance of \$11.8 million, resulting in additional provision for loan losses of \$30.8 million during 2011.

The significant unobservable (Level 3) inputs used in the fair value measurement of collateral for collateral dependent impaired loans included in the above table primarily relate to the adjustment between carrying value versus appraised value. During the reported periods, discounts applied to appraisals for estimated selling costs were 10%.

At September 30, 2012, mortgage servicing rights, carried at fair value, totaled \$4.2 million, which is made up of the outstanding balance of \$6.2 million, net of a valuation allowance of \$2.0 million. At December 31, 2011, mortgage servicing rights, carried at fair value, totaled \$4.6 million, which was made up of the outstanding balance of \$6.4 million, net of a valuation allowance of \$1.8 million, resulting in a net charge of \$1.5 million for the year ended December 31, 2011. During the third quarter, the Company increased the amount of the valuation allowance by \$672,000. Mortgage servicing rights are valued by an independent third party that is active in purchasing and selling these instruments. The value reflects the characteristics of the underlying loans discounted at a market multiple.

At September 30, 2012, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs, had a net carrying amount of \$18.5 million, with a valuation allowance of \$8.9 million. This resulted in additional expenses of \$1.3 million during the three months ended September 30, 2012, and additional expenses of \$2.0 million during the nine months ended September 30, 2012. At December 31, 2011, other real estate owned, measured at fair value less costs to sell, had a net carrying amount of \$33.5 million, which is made up of the outstanding balance of \$42.3 million net of a valuation allowance of \$8.8 million resulting in a write-down of \$4.8 million for the year ended December 31, 2011.

Table of Contents

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at September 30, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input(s) <i>(In thousands)</i>	Range (Average)
Impaired loans:				
Permanent real estate loans	\$ 40,281	Sales comparison approach	Adjustment for differences between comparable sales	12.07%-45.44%
			Adjustment for differences in net operating income	(28.75%)
		Income approach	Capitalization rate	7.52%-10.73%
				(9.49%)
Construction loans	9,316	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-25.00%
			Adjustment for differences in net operating income	(9.83%)
		Income approach	Capitalization rate	10.00%
Consumer loans	5,840	Sales comparison approach	Adjustment for differences between comparable sales	20.00%
Commercial loans	1,678	Sales comparison approach	Adjustment for differences between comparable sales	1.6%-24.18%
			Adjustment for differences in net operating income	(11.15%)
		Income approach	Capitalization rate	8.5%-10%
				(9.25%)
Foreclosed assets:				
Permanent real estate loans	4,448	Sales comparison approach	Adjustment for differences between comparable sales	3.60%-16.47%
				(10.20%)
Construction loans	7,167	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-47.24%
				(17.63%)

Table of Contents

In accordance with generally accepted accounting principles, the carrying value and estimated fair values of financial instruments at September 30, 2012 and December 31, 2011, were as follows:

	September 30, 2012 Carrying Value	Fair Value Measurements at September 30, 2012 Using: Quoted Prices		
		in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(In thousands)</i>				
Assets:				
Cash and cash equivalents	\$ 57,530	\$ 57,530	\$	\$
Available for sale securities	551,795	313	551,482	
Loans held for sale	9,076		9,564	
Loans, net	1,100,328			1,123,516
FHLB stock	26,464	n/a	n/a	n/a
Accrued interest receivable	5,660		230	5,430
Interest rate caps	510			510
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(893,161)	(893,161)		
Certificates of deposit	(597,481)		(608,873)	
FHLB advances	(50,000)		(57,514)	
Repurchase agreements and other	(90,603)		(101,979)	
Advance payments by borrowers for taxes and insurance	(14,121)		(14,121)	
Accrued interest payable	(628)	(63)	(565)	

Table of Contents

	December 31, 2011	
	Carrying Value	Fair Value
	<i>(Dollars in thousands)</i>	
Assets:		
Cash and cash equivalents	\$ 54,136	\$ 54,136
Available for sale securities	459,598	459,598
Loans held for sale	12,727	13,098
Loans, net	1,379,276	1,402,452
Federal Home Loan Bank stock	26,464	n/a
Accrued interest receivable	6,741	6,741
Interest Rate Caps	1,933	1,933
Liabilities:		
Deposits:		
Checking, savings and money market accounts	(817,082)	(817,082)
Certificates of deposit	(771,415)	(782,146)
Federal Home Loan Bank advances	(128,155)	(136,727)
Repurchase agreements and other	(90,618)	(103,719)
Advance payments by borrowers for taxes and insurance	(23,282)	(23,282)
Accrued interest payable	(610)	(610)

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(b) FHLB Stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(c) Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(d) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 1 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates of deposit to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Table of Contents**(e) Short-term Borrowings**

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within 90 days, approximate their fair values resulting in a Level 2 classification.

(f) Other Borrowings

The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

(g) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification, depending on the classification of the underlying asset or liability.

(h) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

11. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	For the nine months ended	
	September 30, 2012	September 30, 2011
	<i>(In thousands)</i>	
Supplemental disclosures of cash flow information		
Cash paid (received) during the period for:		
Interest on deposits and borrowings	\$ 14,202	\$ 23,595
Income taxes		(3,537)
Supplemental schedule of noncash activities:		
Loans transferred from portfolio to held for sale	1,214	96,845
Transfers from loans to real estate owned and other repossessed assets	5,743	17,017
Transfers from real estate owned to premises and equipment	1,746	
Transfers from premises and equipment to other assets		1,750

12. SEGMENT INFORMATION

All of the Company's financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking services.

Table of Contents**13. EARNINGS PER SHARE**

Earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share are computed using the weighted average number of common shares determined for the basic computation plus the dilutive effect of potential common shares that could be issued under outstanding stock options. Stock options for 1,658,390 shares were anti-dilutive for the three months ended September 30, 2012. There were 2,049,844 stock options for shares that were anti-dilutive for the three months ended September 30, 2011. Stock options for 1,686,674 shares were anti-dilutive for the nine months ended September 30, 2012. There were 2,049,844 stock options for shares that were anti-dilutive for the nine months ended September 30, 2011.

	Three months ended September 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Net loss per consolidated statements of income	\$ (26,891)	\$ (8,864)
Net loss allocated to participating securities	(73)	(16)
Net loss allocated to common stock	\$ (26,818)	\$ (8,848)
Basic earnings (loss) per common share computation:		
Distributed earnings allocated to common stock	\$	\$
Undistributed loss allocated to common stock	(26,818)	(8,848)
Net loss allocated to common stock	\$ (26,818)	\$ (8,848)
Weighted average common shares outstanding, including shares considered participating securities	32,847	30,953
Less: Average participating securities	(96)	(57)
Weighted average shares	32,751	30,896
Basic loss per common share	\$ (0.82)	\$ (0.29)
Diluted earnings (loss) per common share computation:		
Net loss allocated to common stock	\$ (26,818)	\$ (8,848)
Weighted average common shares outstanding for basic earnings per common share	32,751	30,896
Add: Dilutive effects of assumed exercises of stock options		
Weighted average shares and dilutive potential common shares	32,751	30,896
Diluted loss per common share	\$ (0.82)	\$ (0.29)

Table of Contents

	Nine months ended September 30,	
	2012	2011
	<i>(Dollars in thousands)</i>	
Net loss per consolidated statements of income	\$ (23,033)	\$ (7,698)
Net loss allocated to participating securities	(43)	(11)
Net loss allocated to common stock	\$ (22,990)	\$ (7,687)
Basic earnings (loss) per common share computation:		
Distributed earnings allocated to common stock	\$	\$
Undistributed loss allocated to common stock	(22,990)	(7,687)
Net loss allocated to common stock	\$ (22,990)	\$ (7,687)
Weighted average common shares outstanding, including shares considered participating securities	32,781	30,936
Less: Average participating securities	(66)	(47)
Weighted average shares	32,715	30,889
Basic loss per common share	\$ (0.70)	\$ (0.25)
Diluted earnings (loss) per common share computation:		
Net loss allocated to common stock	\$ (22,990)	\$ (7,687)
Weighted average common shares outstanding for basic earnings per common share	32,715	30,889
Add: Dilutive effects of assumed exercises of stock options		
Weighted average shares and dilutive potential common shares	32,715	30,889
Diluted loss per common share	\$ (0.70)	\$ (0.25)

Table of Contents**14. OTHER COMPREHENSIVE INCOME (LOSS)**

Other comprehensive income (loss) included in the Consolidated Statements of Shareholders' Equity consists of unrealized gains and losses on available for sale securities and reflects no change in unrealized gains and losses on postretirement liability. The change includes reclassification of gains on sales of securities of \$5.2 million and no impairment charges at September 30, 2012, and gains on sales of securities of \$3.5 million and impairment charges of \$78,000 at September 30, 2011.

Other comprehensive income (loss) components and related tax effects for the three and nine month periods are as follows:

	Three months ended	
	September 30, 2012	September 30, 2011
	<i>(Dollars in thousands)</i>	
Unrealized holding gain on securities available for sale	\$ 6,759	\$ 10,141
Reclassification adjustment for gains realized in income	(1,192)	(1,923)
Net unrealized gains	5,567	8,218
Tax effect (35%)	(2,838)	
Net of tax amount	\$ 2,729	\$ 8,218

	Nine months ended	
	September 30, 2012	September 30, 2011
	<i>(Dollars in thousands)</i>	
Unrealized holding gain on securities available for sale	\$ 13,270	\$ 17,346
Reclassification adjustment for gains realized in income	(5,161)	(3,427)
Net unrealized gains	8,109	13,919
Tax effect (35%)	(2,838)	
Net of tax amount	\$ 5,271	\$ 13,919

The following is a summary of accumulated other comprehensive income (loss) balances, net of tax:

	Balance at December 31, 2011	Current Period Change	Balance at September 30, 2012
Unrealized gains on securities available for sale	\$ 3,447	\$ 5,271	\$ 8,718
Unrealized gains on post-retirement benefits	1,585		1,585
Total	\$ 5,032	\$ 5,271	\$ 10,303

The Company recognized a net loss and had unrealized gains on available for sale securities recorded in other comprehensive income at September 30, 2012. As a result, the tax benefit recognized is equal to the current year to date change in other comprehensive income multiplied by the Company's statutory tax rate of 35%.

Table of Contents**15. REGULATORY CAPITAL REQUIREMENTS**

Home Savings is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Home Savings and United Community. The regulations require Home Savings to meet specific capital adequacy guidelines and the regulatory framework for prompt corrective action that involve quantitative measures of Home Savings' assets, liabilities, and certain off balance sheet items as calculated under regulatory accounting practices. Home Savings' capital classification also is subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation for capital adequacy require Home Savings to maintain minimum amounts and ratios of Tier 1 (or Core) capital (as defined in the regulations) to average total assets (as defined) and of total risk-based capital (as defined) to risk-weighted assets (as defined). Actual and statutory required capital amounts and ratios for Home Savings are presented below.

	As of September 30, 2012			
	Actual		Minimum Capital Requirements Per Consent Order	
	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>			
Total risk-based capital to risk-weighted assets	\$ 171,263	15.85%	\$ 129,677	12.00%
Tier 1 capital to risk-weighted assets	157,674	14.59%	*	*
Tier 1 capital to average total assets	157,674	8.27%	171,616	9.00%

	As of September 30, 2012			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions (1)	
	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>			
Total risk-based capital to risk-weighted assets	\$ 86,451	8.00%	\$ 108,064	10.00%
Tier 1 capital to risk-weighted assets	*	*	64,839	6.00%
Tier 1 capital to average total assets	76,274	4.00%	95,342	5.00%

(1) Home Savings cannot be considered well capitalized while it is under a regulatory order that requires it to maintain a specific capital level.

	As of December 31, 2011			
	Actual		Minimum Capital Requirements Per Bank Order	
	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>			
Total risk-based capital to risk-weighted assets	\$ 196,710	14.57%	\$ 162,005	12.00%
Tier 1 capital to risk-weighted assets	179,521	13.30%	*	*
Tier 1 capital to average total assets	179,521	8.61%	166,856	8.00%

	As of December 31, 2011			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
	<i>(Dollars in thousands)</i>			
Total risk-based capital to risk-weighted assets	\$ 108,003	8.00%	\$ 135,004	10.00%
Tier 1 capital to risk-weighted assets	*	*	81,002	6.00%
Tier 1 capital to average total assets	83,428	4.00%	104,285	5.00%

* Amount/Ratio is not required under the Bank Order or regulations.

Table of Contents

As of September 30, 2012 and December 31, 2011, respectively, the FDIC and FRB categorized Home Savings as adequately capitalized pursuant to the Consent Order and OTS Order (as amended) discussed in Note 2. Home Savings cannot be considered well capitalized while it is under a regulatory order that requires it to maintain a specific capital level.

Pursuant to the Consent Order issued by the FDIC and Ohio Division, Home Savings will need to maintain a Tier 1 Leverage Ratio greater than 9.0% and a Total Risk-based Capital Ratio greater than 12.0% at the end of every quarter beginning with the quarter ending June 30, 2012. If either ratio falls below its limit at the end of any given quarter, then Home Savings must restore its capital ratios to required levels within 60 days, as more fully disclosed in Note 2.

The Bank's Tier 1 leverage ratio is 8.27%, after recording loss from the bulk asset sale. While Home Savings is still operating under a Consent Order requiring a minimum Tier 1 leverage ratio of 9.0%, the Company has worked closely with its regulators to keep them informed of the transaction and obtained their concurrence to complete the sale along with the Bank's commitment to meet the 9.0% requirement by March 31, 2013.

Events beyond management's control, such as fluctuations in interest rates or a downturn in the economy in areas in which Home Savings' loans and securities are concentrated, could adversely affect future earnings, and consequently Home Savings' ability to meet its future capital requirements. Refer to Note 2 for a complete discussion of the regulatory enforcement actions.

16. INCOME TAXES

The Company recognized a net loss and had unrealized gains on available for sale securities recorded in other comprehensive income for the period ending September 30, 2012, as well as a pretax operating loss. As a result, the tax benefit recognized is equal to the current year to date change in other comprehensive income multiplied by the Company's statutory tax rate of 35%.

Management recorded a valuation allowance against deferred tax assets at September 30, 2012 and December 31, 2011, based on its estimate of future reversal and utilization. When determining the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded as a benefit, the Company conducts a regular assessment of all available information. This information includes, but is not limited to, taxable income in prior periods, projected future income, and projected future reversals of deferred tax items. Based on these criteria, the Company determined that it was necessary to establish a full valuation allowance against the entire net deferred tax asset, which was in place during all periods presented.

Table of Contents**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**
UNITED COMMUNITY FINANCIAL CORP.

	At or For the Three Months Ended September 30,		At or For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Selected financial ratios and other data: (1)				
Performance ratios:				
Return on average assets (2)	-5.67%	-1.69%	-1.56%	-0.48%
Return on average equity (3)	-53.53%	-18.98%	-15.56%	-5.61%
Interest rate spread (4)	3.00%	2.97%	3.15%	3.15%
Net interest margin (5)	3.17%	3.18%	3.34%	3.36%
Non-interest expense to average assets	3.66%	2.78%	3.45%	2.94%
Efficiency ratio (6)	93.62%	79.67%	82.61%	74.27%
Average interest-earning assets to average interest-bearing liabilities	118.34%	113.30%	117.12%	112.86%
Capital ratios:				
Average equity to average assets	10.60%	8.90%	10.02%	8.60%
Equity to assets, end of period	9.37%	8.82%	9.37%	8.82%
Tier 1 leverage ratio	8.27%	8.13%	8.27%	8.13%
Tier 1 risk-based capital ratio	14.59%	11.98%	14.59%	11.98%
Total risk-based capital ratio	15.85%	13.25%	15.85%	13.25%
Asset quality ratios:				
Nonperforming loans to total loans at end of period (7)	4.16%	9.33%	4.16%	9.33%
Nonperforming assets to average assets (8)	3.52%	8.22%	3.39%	8.10%
Nonperforming assets to total assets at end of period (8)	3.65%	8.32%	3.65%	8.32%
Allowance for loan losses as a percent of loans	1.79%	2.98%	1.79%	2.98%
Allowance for loan losses as a percent of nonperforming loans (7)	43.06%	32.94%	43.06%	32.94%
Texas ratio (9)	34.89%	76.12%	34.89%	76.12%
Total classified loans as a percent of Tier 1 capital (10)	37.02%	132.26%	37.02%	132.26%
Total classified loans as a percent of Tier 1 capital and ALLL	32.85%	105.14%	32.85%	105.14%
Total classified assets as a percent of Tier 1 capital and ALLL (10)	44.21%	122.93%	44.21%	122.93%
Net charge-offs as a percent of average loans	13.57%	3.75%	6.15%	2.46%
Total 90+ days past due as a percent of total loans	3.70%	7.59%	3.70%	7.59%
Office data:				
Number of full service banking offices	34	38	34	38
Number of loan production offices	8	7	8	7
Per share data:				
Basic earnings (loss) (11)	\$ (0.82)	\$ (0.29)	\$ (0.70)	\$ (0.25)
Diluted earnings (loss) (11)	(0.82)	(0.29)	(0.70)	(0.25)
Book value (12)	5.22	5.90	5.22	5.90
Tangible book value (13)	5.21	5.88	5.21	5.88

Notes:

- Ratios for the three and nine month periods are annualized where appropriate
- Net income (loss) divided by average total assets
- Net income (loss) divided by average total equity
- Difference between weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities
- Net interest income as a percentage of average interest-earning assets
- Noninterest expense, excluding the amortization of core deposit intangible and prepayment penalties, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities, other than temporary impairment charges, gains and losses on foreclosed assets, and gain on the sale of a retail branch
- Nonperforming loans consist of nonaccrual loans and loans past due ninety days and still accruing

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8. Nonperforming assets consist of nonperforming loans, real estate owned and other repossessed assets
9. Nonperforming assets divided by the sum of tangible common equity and the allowance for loan losses
10. Classified assets include classified loans, real estate owned and other repossessed assets
11. Net income (loss) divided by the number of basic or diluted shares outstanding
12. Shareholders' equity divided by number of shares outstanding
13. Shareholders' equity minus core deposit intangible divided by the number of shares outstanding

Table of Contents

The following table summarizes the trend in the allowance for loan losses as of September 30, 2012:

	Allowance For Loan Losses (In thousands)				Net (Chargeoffs) Recovery from Bulk Asset Sale	9/30/2012
	12/31/2011	Provision	Recovery	Chargeoff		
Real Estate Loans						
Permanent						
One-to four-family residential	\$ 7,802	\$ 15,784	\$ 117	\$ (2,099)	\$ (14,752)	\$ 6,852
Multifamily residential	2,689	4,887	263	(1,377)	(5,174)	1,288
Nonresidential	16,801	12,114	274	(10,868)	(14,382)	3,939
Land	4,031	(246)	39	(1,984)	(1,436)	404
Total	31,323	32,539	693	(16,328)	(35,744)	12,483
Construction Loans						
One-to four-family residential	4,400	2,367	71	(3,209)	(2,134)	1,495
Multifamily and nonresidential	93	(74)	120	(4)		135
Total	4,493	2,293	191	(3,213)	(2,134)	1,630
Consumer Loans						
Home Equity	2,026	2,231	280	(649)	(759)	3,129
Auto	77	(28)	10	(8)		51
Marine	509	16	10	(113)	(57)	365
Recreational vehicle	1,888	80	52	(1,157)		863
Other	76	123	227	(271)	(6)	149
Total	4,576	2,422	579	(2,198)	(822)	4,557
Commercial Loans						
Secured	654	240	31	(225)	(1)	699
Unsecured	1,225	(271)	164	(982)	543	679
Total	1,879	(31)	195	(1,207)	542	1,378
Total	\$ 42,271	\$ 37,223	\$ 1,658	\$ (22,946)	\$ (38,158)	\$ 20,048

The allowance for loan losses is a valuation allowance for probable incurred credit losses established through a provision for possible loan losses charged to expense. The allowance for loan losses decreased to \$20.0 million at September 30, 2012, from \$42.3 million at December 31, 2011, a decrease of \$22.2 million. The allowance for loan losses as a percentage of loans was 1.79% at September 30, 2012, compared to 2.79% at December 31, 2011. However, the allowance for loan losses as a percentage of nonperforming loans was 43.06% at September 30, 2012, compared to 34.34% at December 31, 2011, due to the decrease in nonperforming loans following the bulk asset sale described above. Loan losses are charged against the allowance when the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are added back to the allowance. Home Savings' allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, Receivables, and allowance allocations calculated in accordance with ASC Topic 450, Contingencies. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade applied to specific risk pools, plus specific loss allocations and adjustments for current events and conditions. Reserves from loans included in the asset sale mentioned above were treated as charges against the allowance in the third quarter of 2012. The ASC 310 reserve, or where applicable the ASC 450 reserve, as it related to loans included in the bulk asset sale were treated as chargeoffs in the ASC 450 methodology of determining loan loss ratios. Home Savings' process for determining the appropriate level of the allowance for possible loan losses is designed to account for credit deterioration as it occurs. The provision for possible loan losses reflects loan quality trends, including the levels of and trends related to nonaccrual loans, past due loans, classified loans and

net chargeoffs or recoveries, among other factors.

The decrease in the allowance for loan losses in the first nine months of 2012 was primarily a result of net chargeoffs associated with loans sold in the bulk asset sale and more specifically, nonresidential real estate. At September 30, 2012, the allowance assigned to the permanent nonresidential real estate portfolio aggregated \$3.9 million, a decrease of \$12.9 million from the previous year-end.

Table of Contents

During the nine months ended September 30, 2012, the level of net loans charged off, excluding chargeoffs from the bulk asset sale, exceeded the loan loss provision by approximately \$18.2 million. Timing differences can exist between the period in which an initial provision is recognized and the subsequent period in which the loss is confirmed and the resulting chargeoff recognized. As a result, in any given period, it is possible to have chargeoffs exceed the provision for loan losses in the various loan categories. All major categories had the level of chargeoffs exceed the provision recognized in the first nine months of 2012. In the first nine months of 2012, certain loans were charged off where reserves were established in a previous period.

Net chargeoffs exceeded the loan loss provision by \$12.9 million in the nonresidential real estate category. This was impacted by the level of outstanding loans in the category, which declined by \$125.5 million since December 31, 2011, thereby reducing the needed level of the allowance for loan losses. The primary reason for this decline in loans was the bulk asset sale mentioned above. Also affecting the comparison was the resolution of one commercial loan relationship consisting of seven loans, which represented the Company's largest classified loan relationship, in the second quarter of 2012. Five of the seven loans in this relationship were nonresidential loans. The resolution of this loan relationship resulted in a \$20.8 million decline in loan principal balances. Based on facts and circumstances that occurred in the second quarter of 2012, a chargeoff of \$5.9 million in nonresidential loans was recognized in the second quarter as a part of this resolution. Reserves of \$1.1 million were established on these specific loans in prior periods, resulting in a net loss of \$4.8 million in the second quarter. Of the remaining \$5.1 million in nonresidential chargeoffs, reserves of \$7.9 million had been established in prior periods.

Accordingly, as a result of adequate reserves being established in previous periods, a decline in principal balances outstanding and changes in historical loss factors at September 30, 2012, the required level of allowance for loan loss and provision for loan loss has declined. The following table summarizes the affect the bulk loan sale had on the loan portfolio.

Asset Quality Measure ⁽¹⁾	June 30, 2012 (As Reported)	September 30, 2012 (As Reported) <i>(In thousands)</i>	Change
Classified Loans	\$ 171,839	\$ 58,373	\$ (113,466)
Other Real Estate Owned and Other Repossessed Assets	\$ 24,778	\$ 20,206	\$ (4,572)
Total Classified Assets	\$ 196,617	\$ 78,579	\$ (118,038)
Classified Assets/(Tier 1 + ALLL)	91.41%	43.75%	-47.66%
Total Nonperforming Loans	\$ 114,529	\$ 46,557	\$ (67,972)
Allowance for Loan Losses	\$ 30,933	\$ 20,048	\$ (10,885)
Reserves/Nonperforming Loans	27.01%	43.06%	16.05%
Nonperforming Assets/Total Assets	7.31%	3.65%	-3.66%
Noncurrent Loans (30 + Days Delinquent)	\$ 109,785	\$ 51,220	\$ (58,565)
Texas Ration ⁽²⁾	62.59%	34.89%	-27.70%

(1) Dollar amounts in thousands. All dollar amounts shown are book balance prior to any reserves

(2) Texas Ratio is defined as nonperforming assets divided by the sum of tangible common equity and the allowance for loan losses. A non-homogeneous loan is considered impaired when, based on current information and events, it is probable that Home Savings will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the strength of guarantors (if any). Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the facts and circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by the fair value of the collateral if the loan is collateral dependent, or, in rare cases, by the present value of expected future cash flows discounted at the loan's effective interest rate or the market value of the loan. The following table summarizes the change in impaired loans during the first nine months of 2012.

Table of Contents**Impaired Loans**
(Dollars in thousands)

	September 30, 2012	December 31, 2011	Change
Real Estate Loans			
Permanent			
One-to four-family residential	\$ 15,594	\$ 30,287	\$ (14,693)
Multifamily residential	1,526	6,592	(5,066)
Nonresidential	18,260	66,503	(48,243)
Land	6,182	11,908	(5,726)
Total	41,562	115,290	(73,728)
Construction Loans			
One-to four-family residential	9,980	30,587	(20,607)
Multifamily and nonresidential			
Total	9,980	30,587	(20,607)
Consumer Loans			
Home Equity	4,956	3,139	1,817
Auto	52	59	(7)
Boat	170	482	(312)
Recreational vehicle	673	47	626
Other	7	7	
Total	5,858	3,734	2,124
Commercial Loans			
Secured	1,801	3,511	(1,710)
Unsecured	43	445	(402)
Total	1,844	3,956	(2,112)
Total Impaired Loans	\$ 59,244	\$ 153,567	\$ (94,323)

The decrease in impaired loans can be largely attributed to the bulk asset sale and, to a lesser extent, the resolution of loans through principal payments, charge offs, sale of the loan or collateral, or by Home Savings taking possession of the collateral. The decline in impaired loans attributable to the bulk asset sale aggregated \$76.1 million.

Included in impaired loans above are certain loans Home Savings considers to be troubled debt restructurings (TDR). A loan is considered a TDR if Home Savings grants a concession to the debtor that it would otherwise not consider. The concession either stems from an agreement between the creditor and the debtor or is imposed by law or a court. If the debtor is not currently experiencing financial difficulties, but would probably be in payment default in the future without the modification, then this type of restructure also could be considered a TDR.

A TDR may include, but is not necessarily limited to, one or a combination of the following:

Modification of the terms of a debt, such as one or a combination of:

Reduction of the stated interest rate for the remaining original life of the loan;

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Extension of the maturity date at a stated interest rate lower than the current market rate for new debt with similar risk;

Reduction of the face amount or maturity amount of the loan as stated in the instrument or other agreement; or

Reduction of accrued interest.

Transfer from the borrower to Home Savings of receivables from third parties, real estate, or other assets to fully or partially satisfy a debt (including a transfer resulting from foreclosure or repossession).

Issuance or other granting of an equity interest to Home Savings by the borrower to satisfy fully or partially a loan unless the equity interest is granted pursuant to existing terms for converting the debt into an equity interest.

Table of Contents

A debt restructuring is not necessarily a TDR for purposes of this definition even if the borrower is experiencing some financial difficulties. A TDR is not involved if:

the fair value of cash, other assets, or an equity interest accepted by Home Savings from a borrower in full satisfaction of its loan at least equals the recorded investment in the loan;

the fair value of cash, other assets, or an equity interest transferred by a borrower to Home Savings in full settlement of its loan at least equals the carrying amount of the loan;

Home Savings reduces the effective interest rate on the loan primarily to reflect a decrease in market interest rates in general or a decrease in the risk so as to maintain a relationship with a borrower that can readily obtain funds from other sources at the current market interest rate; or

Home Savings issues, in exchange for the original loan, a new marketable loan having an effective interest rate based on its market price that is at or near the current market interest rates of loans with similar maturity dates and stated interest rates issued by other banks.

The change in TDRs for the nine months ended September 30, 2012 is as follows:

Troubled Debt Restructurings	September 30, 2012	December 31, 2011	Change
	<i>(Dollars in thousands)</i>		
Real Estate Loans			
Permanent			
One-to four-family	\$ 13,244	\$ 16,648	\$ (3,404)
Multifamily residential		3,273	(3,273)
Nonresidential	1,262	19,666	(18,404)
Land	162	3,325	(3,163)
Total	14,668	42,912	(28,244)
Construction Loans			
One-to four-family residential	1,285	2,936	(1,651)
Multifamily and nonresidential			
Total	1,285	2,936	(1,651)
Consumer Loans			
Home Equity	4,181	1,895	2,286
Auto		21	(21)
Marine			
Recreational vehicle			
Other	7	7	
Total	4,188	1,923	2,265
Commercial Loans			
Secured	1,362	3,073	(1,711)

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Unsecured	30	54	(24)
Total	1,392	3,127	(1,735)
Total Restructured Loans	\$ 21,533	\$ 50,898	\$ (29,365)

The decline in the level of TDR loans during the nine months ended September 30, 2012 was attributable primarily to the bulk asset sale. TDR loans sold in that sale aggregated \$12.8 million.

Once a restructured loan has fallen into nonaccrual status, the restructured loan will remain on nonaccrual status for a period of at least six months until the borrower has demonstrated a willingness and ability to make the restructured loan payments. TDR loans that were on nonaccrual status aggregated \$4.5 million and \$17.8 million at September 30, 2012 and December 31, 2011, respectively. Such loans are considered nonperforming loans. TDR loans that were accruing according to their terms aggregated \$17.0 million and \$33.1 million at September 30, 2012 and December 31, 2011, respectively.

Table of Contents

Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were \$76.5 million, or 4.23% of net loans, at September 30, 2012, compared to \$123.1 million, or 9.00% of net loans, at December 31, 2011.

The schedule below summarizes the change in nonperforming loans for the first nine months of 2012.

Nonperforming Loans (Dollars in thousands)				
	September 30, 2012	December 31, 2011	Change	
Real Estate Loans				
Permanent				
One-to four-family residential	\$ 5,817	\$ 26,637	\$ (20,820)	
Multifamily residential	1,512	5,860	(4,348)	
Nonresidential	17,484	42,902	(25,418)	
Land	6,228	11,142	(4,914)	
Total	31,041	86,541	(55,500)	
Construction Loans				
One-to four-family residential	9,527	27,104	(17,577)	
Multifamily and nonresidential				
Total	9,527	27,104	(17,577)	
Consumer Loans				
Home Equity	3,318	4,237	(919)	
Auto	118	170	(52)	
Marine	158	479	(321)	
Recreational vehicle	1,307	1,725	(418)	
Other	20	9	11	
Total	4,921	6,620	(1,699)	
Commercial Loans				
Secured	1,055	2,483	(1,428)	
Unsecured	13	347	(334)	
Total	1,068	2,830	(1,762)	
Total Nonperforming Loans	\$ 46,557	\$ 123,095	\$ (76,538)	

The bulk asset sale that Home Savings completed in the third quarter of 2012 was comprised primarily of nonperforming loans. Therefore, the change identified in the schedule above is primarily the result of that sale. Nonperforming loans sold in that sale aggregated \$63.3 million.

Loans held for sale decreased \$3.7 million, or 28.7%, to \$9.1 million at September 30, 2012, compared to \$12.7 million at December 31, 2011. The change was primarily attributable to the timing of sales during the period. Home Savings continues to sell a portion of newly originated mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

FHLB stock remained at \$26.5 million for September 30, 2012 and December 31, 2011. During the first nine months of 2012, the FHLB paid a cash dividend in lieu of a stock dividend to its member banks.

Table of Contents

Real estate owned and other repossessed assets decreased \$13.3 million, or 39.7%, during the nine months ended September 30, 2012. The following table summarizes the activity in real estate owned and other repossessed assets during the period:

	Real Estate Owned	Repossessed Assets (In thousands)	Total
Balance at December 31, 2011	\$ 32,946	\$ 540	\$ 33,486
Acquisitions	4,763	980	5,743
Transfer to fixed assets	(1,746)		(1,746)
Sales	(14,426)	(1,046)	(15,472)
Provision for unrealized losses	(1,805)		(1,805)
Balance at September 30, 2012	\$ 19,732	\$ 474	\$ 20,206

The following table depicts the type of property secured in the satisfaction of loans and the valuation allowance associated with each type as of September 30, 2012:

	Balance	Valuation Allowance (In thousands)	Net Balance
Real estate owned			
One-to four-family	\$ 7,635	\$ (843)	\$ 6,792
Multifamily residential	752	(295)	457
Nonresidential	1,250	(93)	1,157
One-to four-family residential construction	16,150	(5,585)	10,565
Land	824	(63)	761
Total real estate owned	26,611	(6,879)	19,732
Repossessed assets			
Marine	146		146
Recreational vehicle	328		328
Total repossessed assets	474		474
Total real estate owned and other repossessed assets	\$ 27,085	\$ (6,879)	\$ 20,206

In connection with the bulk asset sale, Home Savings sold 10 properties that had a combined carrying value of \$1.1 million. The loss realized on those disposals aggregated \$413,000.

Home Savings has made the decision to move all mortgage, credit and commercial operations/staff from their former leased location in Beachwood, Ohio to a building in Willoughby, Ohio that is owned by Home Savings. The building in Willoughby, Ohio was acquired in resolution of a nonresidential real estate loan in March 2010, and was held in Home Savings' real estate owned portfolio. This move will save occupancy expenses as compared to the use of the Beachwood location.

Property acquired in the settlement of loans is recorded at the lower of (a) the loan's acquisition balance less cost to sell or (b) the fair market value of the property secured less costs to sell. Appraisals are obtained at least annually on properties that exceed \$1.0 million in value. Based on current appraisals, a valuation allowance may be established to reflect properly the asset at fair market value. The increase in the valuation allowance on property acquired in relation to one-to four-family residential construction loans was due to the decline in market value of those properties.

Total deposits decreased \$97.9 million to \$1.5 billion at September 30, 2012, compared to December 31, 2011. The primary cause for the decrease in deposits was due to the overall decline in certificates of deposit due to the maturity of the Company's Step CDs. Primarily in the third quarter of 2008, Home Savings offered a 42-month time deposit product (Step CDs) to its customers in order to maintain adequate levels of

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liquidity as Home Savings entered into the Bank Order with regulators. While the Step CDs offered a blended rate over the 42-month term consistent with other 42-month certificates of deposit being offered in Home Savings market at that time, the interest rate paid on Step CDs increased in regular intervals over the life of the deposit, such that in the final six months of the deposit prior to maturity, the rate paid was 6.50%. This product generated approximately \$140.0 million in deposits, \$12.6 million

Table of Contents

of which were sold in the branch sale announced in the fourth quarter of 2011 and \$126.5 million of which matured in the first quarter of 2012. As these and other certificates of deposit matured, the Company was able to retain successfully most of these deposits in other interest-bearing non-time deposit accounts at substantially lower rates. As of September 30, 2012, Home Savings had no brokered deposits.

FHLB advances decreased \$78.2 million during the first nine months of 2012, primarily as a result of the paydown of overnight advances and the prepayment of term advances. Home Savings used funds from security sales to prepay \$25.7 million in term advances and offset the prepayment penalties associated with the paydowns of these advances with the gains recognized on these security sales. Proceeds from loan payoffs were used to reduce overnight advances, which accounted for the remainder of the change. Home Savings had approximately \$245.5 million in unused borrowing capacity at the FHLB at September 30, 2012.

Advance payments by borrowers for taxes and insurance decreased \$9.2 million during the first nine months of 2012. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings accounted for \$3.0 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased \$6.2 million.

Home Saving agreed to certain indemnification provisions with the bulk asset sale. Management believes there is no liability associated with those provisions, and, as such, has not accrued for any future liabilities for those provisions. Furthermore, there are no recourse obligations associated with the agreement.

During the first nine months of 2012, Home Savings received requests for reimbursements from investors for the purpose of making the investor whole on certain loans sold in the secondary market. These loans have certain identified weakness such that, in the opinion of management, a settlement to the investor is most appropriate. For the nine months ended September 30, 2012, Home Savings incurred expenses of \$593,000 associated with such repurchases. Home Savings has included in other liabilities a reserve for future make-whole settlements aggregating \$368,000 at September 30, 2012. Management believes this reserve is appropriate given the historical losses incurred to date and the probability future losses will be deemed certain.

In keeping with its capital plan, the Company engaged an investment banking advisory firm in June 2011 to advise the board and management on the Company's strategic alternatives, including raising outside capital. The majority of any capital raised by United Community will be contributed to Home Savings, with the remainder to be used for general corporate purposes. Home Savings may then utilize the capital to accelerate the disposition of certain performing and nonperforming loans and meet the capital requirements of the Consent Order. The type, timing, amount and terms of possible securities that would be issued in such an offering have yet to be finalized.

Shareholders' equity decreased \$17.2 million to \$171.6 million at September 30, 2012, from \$188.7 million at December 31, 2011. The change occurred primarily due to the net loss incurred by the Company in the period as a result of the bulk sale, offset by the adjustment to other comprehensive income for the valuation of available for sale securities during the period.

Comparison of Operating Results for the Three Months Ended

September 30, 2012 and September 30, 2011

Net Income. United Community recognized a net loss for the three months ended September 30, 2012, of \$26.9 million, or \$(0.82) per diluted share, compared to a net loss of \$8.9 million, or \$(0.29) per diluted share, for the three months ended September 30, 2011. The primary cause of the change was higher provision for loan losses recognized during the third quarter of 2012. Compared with the third quarter of 2011, net interest income decreased \$1.5 million, the provision for loan losses increased \$18.4 million, non-interest income increased \$1.8 million and noninterest expense increased \$2.8 million. United Community's annualized return on average assets and return on average equity were -5.67% and -53.53%, respectively, for the three months ended September 30, 2012. The annualized return on average assets and return on average equity for the comparable period in 2011 were -1.69% and -18.98%, respectively.

Net Interest Income. Net interest income for the three months ended September 30, 2012 and September 30, 2011, was \$14.1 million and \$15.6 million, respectively. Total interest income decreased \$5.1 million in the third quarter of 2012 compared to the third quarter of 2011, primarily as a result of a decrease of \$270.1 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 47 basis points. Home Savings' construction and segments of its commercial real estate loan portfolios declined as a result of executing its strategic objective of reducing specific concentrations in these portfolios in the current economic environment.

Total interest expense decreased \$3.6 million for the quarter ended September 30, 2012, as compared to the same quarter last year. The change was due primarily to reductions of \$3.4 million in interest paid on deposits. The overall decrease in interest expense was attributable to the maturity of the Step CDs as described above and a shift in deposit balances from certificates of deposit to relatively less expensive non-time

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deposits. Between September 30, 2011 and September 30, 2012, the average outstanding balance of certificates of deposit declined by \$224.8 million, while non-time deposits increased by \$39.2 million. The decrease in deposit balances between September 30, 2011 and September 30, 2012 can also be attributable to the sale of four of the Bank's branches, which took place in the fourth quarter of 2011. Also contributing to the decrease was a reduction of 114 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 19 basis points.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the third quarter of last year. The interest rate spread for the three months ended September 30, 2012, increased to 3.00% compared to 2.97% for the quarter ended September 30, 2011. The net interest margin decreased one basis point to 3.17% for the three months ended September 30, 2012 compared to 3.18% for the same quarter in 2011.

Table of Contents

	For the Three Months Ended September 30, 2012 vs. 2011		
	Increase (decrease) due to		Total increase (decrease)
	Rate	Volume (In thousands)	
Interest-earning assets:			
Loans	\$ (1,643)	\$ (3,348)	\$ (4,991)
Loans held for sale	(21)	(41)	(62)
Investment securities:			
Available for sale	(2,386)	2,282	(104)
FHLB stock	15		15
Other interest-earning assets	9	3	12
Total interest-earning assets	\$ (4,026)	\$ (1,104)	\$ (5,130)
Interest-bearing liabilities:			
Savings accounts	(27)	5	(22)
NOW and money market accounts	(182)	33	(149)
Certificates of deposit	(2,020)	(1,181)	(3,201)
Federal Home Loan Bank advances	180	(438)	(258)
Repurchase agreements and other	17	(20)	(3)
Total interest-bearing liabilities	\$ (2,032)	\$ (1,601)	\$ (3,633)
Change in net interest income			\$ (1,497)

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The provision for loan losses increased to \$30.3 million in the third quarter of 2012, compared to \$11.8 million in the third quarter of 2011. This \$18.4 million increase in the provision for loan losses is primarily a result of a bulk asset sale that was completed on September 21, 2012. As a result of the sale, an additional provision of \$30.2 million was required in September. This was the result of loans charged off in excess of specific reserves on loans included in the sale, as mentioned above.

Noninterest Income. Noninterest income increased in the third quarter of 2012 to \$3.8 million, as compared to noninterest income for the third quarter of 2011 of \$1.9 million. Noninterest income increased as a result of higher mortgage banking income recognized in the third quarter of 2012 as compared to the same quarter in 2011. The increase was due to an overall increase in the volume of loans originated for sale in the current quarter. In the third quarter of 2012, Home Savings sold approximately \$76.3 million of loans and subsequently recognized a \$1.4 million gain. These sales were exclusive of the loans sold in the bulk asset sale. Further impacting the comparison, Home Savings recognized lower losses on the disposal of real estate owned and other repossessed assets in the third quarter of 2012, as compared to the third quarter of 2011. In addition, higher service fees and other charges were recognized, compared to the third quarter of 2011. This change was a result of a lower valuation adjustment recognized on deferred mortgage servicing rights in the third quarter of 2012 as compared to the same period in 2011.

Noninterest Expense. Noninterest expense was \$17.3 million in the third quarter of 2012, compared to \$14.6 million in the third quarter of 2011. In the third quarter of 2012, salaries and employee benefits were up as a result of the recognition of expenses associated with the Executive Incentive Plan and, to a lesser extent, the reinstatement of a matching contribution to the 401(k) plan. Professional fees, including legal and other consultants, were higher during the third quarter of 2012 due to the engagement of professionals hired to assist management in completing the bulk sale. Professional fees specifically associated with the bulk asset sale aggregated \$1.2 million. These fees included investment banking fees and legal fees paid to attorneys assisting with the transaction. The change in noninterest expense for the third quarter of 2012 as compared to the third quarter of 2011 was also affected by an increase in other expenses incurred by the Company. Other expenses were higher as the Bank recognized an additional \$1.8 million in expenses for the payment of delinquent real estate taxes on properties used as collateral that were part of the bulk asset sale.

Table of Contents**Comparison of Operating Results for the Nine Months Ended****September 30, 2012 and September 30, 2011**

Net Income. United Community recognized a net loss for the nine months ended September 30, 2012, of \$23.0 million, or \$(0.70) per diluted share, compared to a net loss of \$7.7 million, or \$(0.25) per diluted share, for the nine months ended September 30, 2011. The primary cause of the change was the higher provision for loan losses recognized during the first nine months of 2012. Compared with the first nine months of 2011, net interest income decreased \$3.9 million, the provision for loan losses increased \$15.0 million; non-interest income increased \$4.6 million and non-interest expense increased \$3.9 million. United Community's annualized return on average assets and return on average equity were -1.56% and -15.56%, respectively, for the nine months ended September 30, 2012. The annualized return on average assets and return on average equity for the comparable period in 2011 were -0.48% and -5.61%, respectively.

Net Interest Income. Net interest income for the nine months ended September 30, 2012 and September 30, 2011, was \$46.4 million and \$50.3 million, respectively. Total interest income decreased \$13.3 million in the first nine months of 2012 compared to the first nine months of 2011, primarily as a result of a decrease of \$283.7 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 30 basis points. Home Savings' construction and segments of its commercial real estate loan portfolios declined as a result of executing its strategic objective of reducing specific concentrations in these portfolios in the current economic environment.

Total interest expense decreased \$9.4 million for the nine months ended September 30, 2012, as compared to the same period last year. The change was due primarily to reductions of \$8.8 million in interest paid on deposits. The overall decrease in interest expense was attributable to the maturity of the Step CDs as described above and a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. Between September 30, 2011 and September 30, 2012, the average outstanding balance of certificates of deposit declined by \$212.0 million, while non-time deposits increased by \$45.9 million. The decrease in deposit balances between September 30, 2011 and September 30, 2012 can also be attributable to the sale of four of the Bank's branches, which took place in the fourth quarter of 2011. Also contributing to the decrease in interest expense was a reduction of 84 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 29 basis points.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the first nine months of last year. The interest rate spread for the nine months ended September 30, 2012 and 2011 was 3.15%. The net interest margin decreased two basis points to 3.34% for the nine months ended September 30, 2012 compared to 3.36% for the first nine months of 2011.

	For the Nine Months Ended September 30, 2012 vs. 2011		
	Increase (decrease) due to Rate	Volume	Total increase (decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans	\$ (3,343)	\$ (10,964)	\$ (14,307)
Loans held for sale	(34)	69	35
Investment securities:			
Available for sale	(1,052)	2,041	989
FHLB stock	1		1
Other interest-earning assets	4	9	13
Total interest-earning assets	\$ (4,424)	\$ (8,845)	\$ (13,269)
Interest-bearing liabilities:			
Savings accounts	(199)	29	(170)
NOW and money market accounts	(662)	132	(530)
Certificates of deposit	(4,762)	(3,348)	(8,110)
Federal Home Loan Bank advances	(223)	(311)	(534)
Repurchase agreements and other	556	(571)	(15)

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Total interest-bearing liabilities	\$ (5,290)	\$ (4,069)	\$ (9,359)
Change in net interest income			\$ (3,910)

Table of Contents

Provision for Loan Losses. A provision for loan losses is charged to income to bring the total allowance for loan losses to a level considered by management to be adequate, based on management's evaluation of such factors as the delinquency status of loans, current economic conditions, the net realizable value of the underlying collateral, changes in the composition of the loan portfolio and prior loan loss experience. The provision for loan losses increased to \$37.2 million in the first nine months of 2012, compared to \$22.3 million in the first nine months of 2011. This \$15.0 million increase in the provision for loan losses is primarily a result of the level of chargeoffs applied to loans sold in the bulk asset sale, as previously mentioned.

Noninterest Income. Noninterest income increased in the first nine months of 2012 to \$15.8 million, as compared to \$11.2 million for the first nine months of 2011. Driving the increase in noninterest income were gains recognized on the sale of available for sale securities. In the first nine months of 2012, Home Savings sold securities totaling approximately \$281.8 million and consequently recognized a \$5.2 million gain. These securities were sold in order to realize gains on the securities portfolio in anticipation of increased prepayment speeds that would cause unrealized gains to erode. Fees generated on nondeposit investments increased \$475,000 during the first nine months of 2012 as compared to the same period last year. The change was driven by the volume of investment activity in 2012. Some of Home Savings' customers that had funds deposited in Step CDs that matured in the first quarter of 2012 were retained and their deposits were invested in various mutual funds and insurance annuities offered through Home Savings' Investments Division. Finally, lower losses incurred on real estate owned and other repossessed assets during the nine months ended September 30, 2012, as compared to the same period last year, were the result of the need to mark fewer properties down to fair market value as real estate values have stabilized.

Noninterest Expense. Noninterest expense was \$50.9 million in the first nine months of 2012, compared to \$47.0 million in the first nine months of 2011. In the first nine months of 2012, salaries and employee benefits were up as a result of the recognition of expenses associated with the Executive Incentive Plan, a restricted stock grant and, to a lesser extent, the reinstatement of a matching contribution to the 401(k) plan in 2012. Also contributing to the increase were expenses incurred due to the prepayment of FHLB term advances. In the second and third quarters of 2012, Home Savings paid in full \$25.7 million in term advances. This was done to utilize excess cash and reduce interest expenses going forward. Professional fees, including legal and other consultants, were higher during the first nine months of 2012 due to the engagement of professionals hired to assist management in resolving nonperforming assets of Home Savings. Professional fees specifically associated with the bulk asset sale aggregated \$1.2 million. These fees included investment banking fees and legal fees paid to attorneys assisting with the transaction. The change in noninterest expense for the first nine months of 2012 as compared to the same period in 2011 was also affected by increased other expenses incurred by the Company. Other expenses were higher as the Bank recognized expenses aggregating \$1.8 million for the payment of delinquent real estate taxes on properties used as collateral that were part of the bulk asset sale.

Table of Contents**UNITED COMMUNITY FINANCIAL CORP.****AVERAGE BALANCE SHEETS**

The following table presents the total dollar amounts of interest income and interest expense on the indicated amounts of average interest-earning assets or interest-bearing liabilities together with the weighted average interest rates for the three month periods ended September 30, 2012 and 2011. Average balance calculations were based on daily balances.

	Three Months Ended September 30,					
	Average Outstanding Balance	2012 Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	2011 Interest Earned/ Paid	Yield/ Cost
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Net loans (1)	\$ 1,213,126	\$ 14,567	4.80%	\$ 1,483,257	\$ 19,558	5.27%
Net loans held for sale	10,853	101	3.72%	15,083	163	4.32%
Investment securities:						
Available for sale	488,723	3,219	2.63%	405,542	3,323	3.28%
Federal Home Loan Bank stock	26,464	279	4.22%	26,464	264	3.99%
Other interest-earning assets	44,263	25	0.23%	36,627	13	0.14%
Total interest-earning assets	1,783,429	18,191	4.08%	1,966,973	23,321	4.74%
Noninterest-earning assets	112,376			130,852		
Total assets	\$ 1,895,805			\$ 2,097,825		
Interest-bearing liabilities:						
NOW and money market accounts	\$ 472,860	\$ 344	0.29%	\$ 445,043	\$ 493	0.44%
Savings accounts	258,834	82	0.13%	247,497	104	0.17%
Certificates of deposit	628,671	2,174	1.38%	853,516	5,375	2.52%
Federal Home Loan Bank advances	56,097	535	3.81%	97,675	793	3.25%
Repurchase agreements and other	90,606	928	4.10%	92,390	931	4.03%
Total interest-bearing liabilities	1,507,068	4,063	1.08%	1,736,121	7,696	1.77%
Noninterest-bearing liabilities	187,805			174,928		
Total liabilities	1,694,873			1,911,049		
Equity	200,932			186,776		
Total liabilities and equity	\$ 1,895,805			\$ 2,097,825		
Net interest income and interest rate spread		\$ 14,128	3.00%		\$ 15,625	2.97%
Net interest margin			3.17%			3.18%
Average interest-earning assets to average interest-bearing liabilities			118.34%			113.30%

(1) Nonaccrual loans are included in the average balance at a yield of 0%.

Table of Contents**UNITED COMMUNITY FINANCIAL CORP.****AVERAGE BALANCE SHEETS**

The following table presents the total dollar amounts of interest income and interest expense on the indicated amounts of average interest-earning assets or interest-bearing liabilities together with the weighted average interest rates for the nine month periods ended September 30, 2012 and 2011. Average balance calculations were based on daily balances.

	Nine Months Ended September 30,					
	Average Outstanding Balance	2012 Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	2011 Interest Earned/ Paid	Yield/ Cost
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Net loans (1)	\$ 1,289,740	\$ 49,182	5.08%	\$ 1,573,394	\$ 63,489	5.38%
Net loans held for sale	10,585	305	3.84%	6,964	270	5.17%
Investment securities:						
Available for sale	489,472	10,253	2.79%	361,911	9,264	3.41%
Federal Home Loan Bank stock	26,464	859	4.33%	26,464	858	4.32%
Other interest-earning assets	37,505	48	0.17%	30,200	35	0.15%
Total interest-earning assets	1,853,766	60,647	4.35%	1,998,933	73,916	4.93%
Noninterest-earning assets	114,720			130,012		
Total assets	\$ 1,968,486			\$ 2,128,945		
Interest-bearing liabilities:						
NOW and money market accounts	\$ 465,864	\$ 1,219	0.35%	\$ 435,599	\$ 1,749	0.54%
Savings accounts	254,265	248	0.13%	238,635	418	0.23%
Certificates of deposit	669,921	8,107	1.61%	881,906	16,217	2.45%
Federal Home Loan Bank advances	102,159	1,880	2.45%	118,343	2,414	2.72%
Repurchase agreements and other	90,611	2,766	4.07%	96,615	2,781	3.84%
Total interest-bearing liabilities	1,582,820	14,220	1.20%	1,771,098	23,579	1.78%
Noninterest-bearing liabilities	188,354			174,776		
Total liabilities	1,771,174			1,945,874		
Equity	197,312			183,071		
Total liabilities and equity	\$ 1,968,486			\$ 2,128,945		
Net interest income and interest rate spread		\$ 46,427	3.15%		\$ 50,337	3.15%
Net interest margin			3.34%			3.36%
Average interest-earning assets to average interest-bearing liabilities			117.12%			112.86%

(1) Nonaccrual loans are included in the average balance at a yield of 0%.

Table of Contents**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Qualitative Aspects of Market Risk. The principal market risk affecting United Community is interest rate risk. United Community is subject to interest rate risk to the extent that its interest earning assets reprice differently than its interest bearing liabilities. Interest rate risk is defined as the sensitivity of United Community's earnings and net asset values to changes in interest rates. As part of its efforts to monitor and manage the interest rate risk, the Board of Directors of Home Savings has adopted an interest rate risk policy that requires the Home Savings Board to review quarterly reports related to interest rate risk and annually set exposure limits for Home Savings as a guide to management in setting and implementing day to day operating strategies.

Quantitative Aspects of Market Risk. As part of its interest rate risk analysis, Home Savings uses the net portfolio value (NPV) and net interest income methodology. Generally, NPV is the discounted present value of the difference between incoming cash flows on interest earning and other assets and outgoing cash flows on interest bearing and other liabilities. The application of the methodology attempts to quantify interest rate risk as the change in the NPV and net interest income that would result from various levels of theoretical basis point changes in market interest rates.

Home Savings uses an NPV and earnings simulation model prepared internally as its primary method for identifying and managing its interest rate risk profile. The model is based on actual cash flows and repricing characteristics for all financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on future volumes and the prepayment rate of applicable financial instruments. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates also are incorporated into the model. These assumptions inherently are uncertain and, as a result, the model cannot precisely measure NPV or net interest income or precisely predict the impact of fluctuations in interest rates on net interest rate changes as well as changes in market conditions and management strategies.

Presented below are analyses of Home Savings' interest rate risk as measured by changes in NPV and net interest income for instantaneous and sustained parallel shifts of 100 basis point increments in market interest rates. As noted, for the quarter ended September 30, 2012, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings in regard to the minimum NPV ratio and the maximum change in interest income that the Home Savings Board deems advisable in the event of various changes in interest rates. See the table below for Board adopted policy limits.

Change in rates (Basis points)	Period Ended September 30, 2012 NPV as % of portfolio value of assets			Next 12 months net interest income (Dollars in thousands)			
	NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	\$ Change	Internal policy limitations	% Change
400	10.89%	6.00%	1.42%	25.00%	\$ 6,500	-20.00%	12.54%
300	11.11%	6.00%	1.64%	25.00%	5,478	-15.00%	10.57%
200	11.22%	7.00%	1.75%	25.00%	4,069	-10.00%	7.85%
100	11.06%	7.00%	1.59%	25.00%	2,084	-5.00%	4.02%
Static	9.47%	8.00%	%	25.00%		%	%

Home Savings' interest rate risk profile as of September 30, 2012, as measured by the NPV methodology described above, changed from that of December 31, 2011, in that Home Savings was more asset sensitive. As a result, at September 30, 2012, the Bank was in a better position to benefit from a rising rate environment than it was a year ago. This change was primarily the result of the flattening of the yield curve and an increase in prepayment speeds.

Table of Contents

Year Ended December 31, 2011

NPV as % of portfolio value of assets

Next 12 months net interest
income
(Dollars in thousands)

Change in rates (Basis points)	NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	\$ Change	Internal	
						policy limitations	% Change
400	8.98%	6.00%	-0.37%	25.00%	\$ 2,321	-20.00%	3.88%
300	9.65%	6.00%	0.30%	25.00%	2,702	-15.00%	4.51%
200	10.16%	7.00%	0.81%	25.00%	2,322	-10.00%	3.88%
100	10.28%	7.00%	0.93%	25.00%	1,333	-5.00%	2.23%
Static	9.35%	7.00%	%	%		%	%

Due to a low interest rate environment, it was not possible to calculate results for a drop in interest rates.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the NPV approach. For example, although certain assets and liabilities may have similar maturities or periods of repricing, they may react in different degrees to changes in market interest rates. In addition, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Further, in the event of a change in interest rates, expected rates of prepayment on loans and early withdrawal levels from certificates of deposit may deviate significantly from those assumed in making risk calculations.

Potential Impact of Changes in Interest Rates. Home Savings' profitability depends to a large extent on its net interest income, which is the difference between interest income from loans and securities and interest expense on deposits and borrowings. Like most financial institutions, Home Savings' short-term interest income and interest expense are affected significantly by changes in market interest rates and other economic factors beyond its control.

ITEM 4. Controls and Procedures

An evaluation was carried out by United Community's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of United Community's disclosure controls and procedures (as defined in Rules 13a-15(e)/15d-15(e) of the Securities Exchange Act of 1934) as of September 30, 2012. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that United Community's disclosure controls and procedures as of September 30, 2012 were effective in ensuring that information required to be disclosed in the reports that United Community files or submits under the Exchange Act (i) was recorded, processed, summarized and reported on a timely basis, and (ii) is accumulated and communicated to management including United Community's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. During the quarter ended September 30, 2012, there were no changes in United Community's internal controls over financial reporting that have materially affected or are reasonably likely to materially affect United Community's internal controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

UNITED COMMUNITY FINANCIAL CORP.

ITEM 1 - Legal Proceedings

United Community and its subsidiaries are parties to litigation arising in the normal course of business. While it is impossible to determine the ultimate resolution of these contingent matters, management believes any resulting liability would not have a material effect upon United Community's financial statements.

ITEM 1A - Risk Factors

There have been no significant changes in United Community's risk factors as outlined in United Community's Form 10-K for the period ended December 31, 2011. The risk factors described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that management currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results. Moreover, the Company undertakes no obligation and disclaims any intention to publish revised information or updates to forward looking statements contained in such risk factors or in any other statement made at any time by the Company or any of its directors, officers, employees or other representatives, unless and until any such revisions or updates are expressly required to be disclosed by securities laws or regulations.

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds

There were no purchases of UCFC shares during the quarter ended September 30, 2012.

ITEM 5 - Other Information

The 2012 Annual Meeting of the Shareholders (the Annual Meeting) of the Company will be held on December 18, 2012. As such, the date of the Annual Meeting will have changed by more than 30 days from the anniversary of the Company's 2011 Annual Meeting. In accordance with Rule 14a-5(f) and Rule 14a-8(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company considered shareholder proposals submitted pursuant to Rule 14a-8 for inclusion in the Company's proxy materials for the Annual Meeting to have been submitted in a timely fashion if such proposals were received by the Company no later than November 29, 2011. Such proposals should have been delivered by certified mail to the Board or any of the directors c/o Secretary, United Community Financial Corp., 275 West Federal Street, Youngstown, Ohio 44503-1203.

ITEM 6 - Exhibits

Exhibit Number	Description
2.1	Asset Purchase and Interim Servicing Agreement, entered into on September 19, 2012, by and between The Home Savings and Loan Company of Youngtown, Ohio and Navy Portfolio, LLC*
3.1	Articles of Incorporation
3.2	Amended Code of Regulations
31.1	Section 302 Certification by Chief Executive Officer
31.2	Section 302 Certification by Chief Financial Officer
32	Certification of Statements by Chief Executive Officer and Chief Financial Officer
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (Extensible Business reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements.

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* Note: Certain exhibits and other schedules(including Exhibits E, F, H, I, N-1, N-2, O and P and Schedules I and II) referenced in the Asset Purchase and Interim Servicing Agreement have been omitted pursuant to Item 601(b)(2) of SEC Regulation S-K. UCFC hereby undertakes to furnish a copy of the omitted exhibits and schedules upon request by the SEC.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNITED COMMUNITY FINANCIAL CORP.

Date: November 13, 2012

/S/ Patrick W. Bevac
Patrick W. Bevac

President and Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2012

/S/ James R. Reske
James R. Reske, CFA

Treasurer and Chief Financial Officer
(Principal Financial Officer)