UNITED COMMUNITY FINANCIAL CORP
Form 10-Q
May 10, 2013
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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 March 31, 2013

¨ **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)

OHIO	000-024399	34-1856319
(State or other jurisdiction of incorporation)	(Commission File No.)	(IRS Employer I.D. No.)

275 West Federal Street, Youngstown, Ohio 44503-1203

(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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x 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	x
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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. 39,611,530 common shares as of April 30, 2013.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Assets:		
Cash and deposits with banks	$ 20,739	$ 26,041
Federal funds sold	57,345	16,572
Total cash and cash equivalents	78,084	42,613
Securities:		
Available for sale, at fair value	602,107	574,562
Loans held for sale	9,268	13,031
Loans, net of allowance for loan losses of $21,827 and $21,130	1,034,415	1,066,240
Federal Home Loan Bank stock, at cost	26,464	26,464
Premises and equipment, net	21,400	21,549
Accrued interest receivable	5,587	6,238
Real estate owned and other repossessed assets, net	15,782	18,440
Core deposit intangible	215	238
Cash surrender value of life insurance	29,106	28,881
Other assets	9,348	10,109
Total assets	$ 1,831,776	$ 1,808,365
Liabilities and Shareholders Equity		
Liabilities:		
Deposits:		
Interest bearing	$ 1,291,170	$ 1,302,307
Noninterest bearing	169,790	159,767
Total deposits	1,460,960	1,462,074
Borrowed funds:		
Federal Home Loan Bank advances	50,000	50,000
Repurchase agreements and other	90,593	90,598
Total borrowed funds	140,593	140,598
Advance payments by borrowers for taxes and insurance	14,258	23,590
Accrued interest payable	597	563
Accrued expenses and other liabilities	8,857	10,780
Total liabilities	1,625,265	1,637,605
Shareholders Equity:		
Preferred stock-no par value; 1,000,000 shares authorized and 7,942 and 0 shares, respectively issued and outstanding, $21,841 and $0 liquidation value, respectively	15,911	

Common stock-no par value; 499,000,000 shares authorized; 44,378,729 and 37,804,457 shares issued, respectively, and 39,606,586 and 33,027,886 shares, respectively, outstanding	148,937	128,026
Retained earnings	88,191	86,345
Accumulated other comprehensive income	3,719	6,682
Treasury stock, at cost, 4,772,143 and 4,776,571 shares, respectively	(50,247)	(50,293)
Total shareholders equity	206,511	170,760
Total liabilities and shareholders equity	$ 1,831,776	$ 1,808,365

See Notes to Consolidated Financial Statements.

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UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	For the Three Months Ended March 31,	
	2013	2012
	(Dollars in thousands, except per share data)	
Interest income		
Loans	$ 12,627	$ 17,656
Loans held for sale	89	100
Available for sale securities	3,428	3,494
Federal Home Loan Bank stock dividends	283	300
Other interest earning assets	9	12
Total interest income	16,436	21,562
Interest expense		
Deposits	2,087	4,032
Federal Home Loan Bank advances	523	732
Repurchase agreements and other	909	919
Total interest expense	3,519	5,683
Net interest income	12,917	15,879
Provision for loan losses	2,064	680
Net interest income after provision for loan losses	10,853	15,199
Non-interest income		
Non-deposit investment income	541	541
Service fees and other charges	1,782	2,317
Net gains (losses):		
Securities available for sale (includes $721 and $414, respectively, accumulated other comprehensive income reclassifications for unrealized net gains on available for sale securities)	721	414
Mortgage banking income	1,643	1,471
Real estate owned and other repossessed assets	(431)	(729)
Other income	1,437	1,077
Total non-interest income	5,693	5,091
Non-interest expense		
Salaries and employee benefits	7,451	8,333
Occupancy	822	799
Equipment and data processing	1,760	1,689
Franchise tax	431	438
Advertising	139	141
Amortization of core deposit intangible	23	29
Deposit insurance premiums	554	1,109
Professional fees	408	880
Real estate owned and other repossessed asset expenses	493	702
Other expenses	1,783	2,374

Total non-interest expenses	13,864	16,494
Income before income taxes	2,682	3,796
Income tax expense (includes $0 income tax expense from reclassification items, respectively)		
Net income	2,682	3,796
Amortization of discount on preferred stock	(821)	
Earnings available to common shareholders	$ 1,861	$ 3,796

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UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
Net income	$ 2,682	$ 3,796
Other comprehensive income		
Unrealized losses on securities, net of tax	(2,963)	(2,883)
Total other comprehensive loss	$ (2,963)	$ (2,883)
Comprehensive (loss) income	$ (281)	$ 913
Earnings per common share		
Basic	$ 0.06	$ 0.12
Diluted	0.05	0.12

See Notes to Consolidated Financial Statements.

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UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(Unaudited)

	Preferred Shares Outstanding	Common Shares Outstanding	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
				(Dollars in thousands)				
Balance December 31, 2011		32,597,762	$	$ 128,031	$ 110,681	$ 5,032	$ (54,999)	$ 188,745
Comprehensive income:								
Net income					3,796			3,796
Comprehensive loss						(2,883)		(2,883)
Stock option expenses				4				4
Restricted stock awards		278,691		(9)	(2,750)		3,111	352
Balance March 31, 2012		32,876,453	$	$ 128,026	$ 111,727	$ 2,149	$ (51,888)	$ 190,014
Balance December 31, 2012		33,027,886	$	$ 128,026	$ 86,345	$ 6,682	$ (50,293)	$ 170,760
Comprehensive income:								
Net income					2,682			2,682
Comprehensive loss						(2,963)		(2,963)
Stock option exercises		2,600			(22)		27	5
Stock option expenses				4				4
Restricted stock awards		1,828		65	7		19	91
Issuance of common stock, net of issuance costs of $3,988		6,574,272		14,091				14,091
Issuance of preferred stock	7,942		15,090	6,751				21,841
Amortization of preferred stock discount			821		(821)			
Balance March 31, 2013	7,942	39,606,586	$ 15,911	$ 148,937	$ 88,191	$ 3,719	$ (50,247)	$ 206,511

See Notes to Consolidated Financial Statements.

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UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	$ 2,682	$ 3,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,064	680
Mortgage banking income	(1,643)	(1,471)
Net losses on real estate owned and other repossessed assets sold	431	729
Net gain on available for sale securities sold	(721)	(414)
Amortization of premiums and accretion of discounts	1,127	1,518
Depreciation and amortization	454	389
Decrease in accrued interest receivable	651	119
Increase in accrued interest payable	34	78
Decrease in prepaid and other assets	815	(2,652)
Decrease in other liabilities	(1,923)	(873)
Stock based compensation	95	356
Net principal disbursed on loans originated for sale	(73,171)	(74,987)
Proceeds from sale of loans originated for sale	78,577	70,294
Net change in value of interest rate caps	(8)	287
Net cash used in operating activities	9,464	(2,151)
Cash Flows from Investing Activities		
Proceeds from principal repayments and maturities of:		
Securities available for sale	18,386	20,315
Proceeds from sale of:		
Securities available for sale	27,912	30,106
Real estate owned and other repossessed assets	2,891	5,107
Loans held for investment	510	1,388
Purchases of:		
Securities available for sale	(77,353)	(124,695)
Principal disbursed on loans, net of repayments	28,522	50,281
Loans purchased	(50)	(67)
Purchases of premises and equipment	(297)	(305)
Net cash used in investing activities	521	(17,870)
Cash Flows from Financing Activities		
Net increase in checking, savings and money market accounts	20,189	73,320
Net decrease in certificates of deposit	(21,303)	(89,958)
Net decrease in advance payments by borrowers for taxes and insurance	(9,332)	(8,515)
Proceeds from Federal Home Loan Bank advances	142,000	156,000
Repayment of Federal Home Loan Bank advances	(142,000)	(120,039)
Net change in repurchase agreements and other borrowed funds	(5)	(5)
Proceeds from the exercise of stock options	5	
Issuance of preferred stock	21,841	
Issuance of common stock, net of issuance cost	14,091	
Net cash from financing activities	25,486	10,803

Change in cash and cash equivalents	35,471	(9,218)
Cash and cash equivalents, beginning of period	42,613	54,136
Cash and cash equivalents, end of period	$ 78,084	$ 44,918

See Notes to Consolidated Financial Statements

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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, 33 full-service branches and nine 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 months ended March 31, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013. 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, 2012, contained in United Community s Form 10-K for the year ended December 31, 2012.

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 is regulated by the Board of Governors of the Federal Reserve System (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). The Consent Order was terminated on January 31, 2013. On January 31, 2013, Home Savings consented to a Memorandum of Understanding (MOU), as described below. Although United Community and Home Savings agreed to the issuance of the Holding Company Order, the Consent Order and the MOU, as the case may be, 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 when these orders were issued or since that time.

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. The 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 was 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. A revised capital plan was submitted to the FRB, FDIC and Ohio Division in December 2011 and a further revised capital plan was submitted in December 2012.

The Consent Order required Home Savings, within specified timeframes, to take or refrain from certain actions, including that it had to: (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 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 January 31, 2013, the Consent Order was terminated and Home Savings entered into a MOU with the FDIC and Ohio Division. The MOU requires Home Savings to submit certain plans and reports to the FDIC and the Ohio Division, to seek the FDIC s and Ohio Division s prior consent before issuing any dividends to United Community, and to maintain its Tier 1 Leverage Capital Ratio at 8.50% and its Total Risk Based Capital Ratio at 12.0%. Home Savings was in compliance with the MOU. As of March 31, 2013 Home Savings Tier 1 Leverage Capital Ratio was 9.84% and its Total Risk Based Capital Ratio was 18.28%.

As of December 31, 2012, the FDIC categorized Home Savings as adequately capitalized pursuant to the Bank Order and the Consent Order, respectively. However, because the Consent Order was terminated on January 31, 2013, Home Savings can now be considered well capitalized.

A failure to comply with the provisions of the MOU 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 February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The primary objective of this ASU is improving the reporting of reclassifications out of accumulated other comprehensive income (AOCI). For significant reclassifications that are required to be presented in their entirety in net income in the same reporting period by U.S. Generally Accepted Accounting Principles (U.S. GAAP), the ASU requires an entity to report the effect of these reclassifications out of AOCI on the respective line items of net income either on the face of the statement that reports net income or in the financial statement notes. For AOCI items that are not reclassified to net income in their entirety, presentation in the financial statement notes is required. The ASU does not change the current requirements for reporting net income or AOCI in the financial statements. This ASU is effective for public companies for fiscal years and interim periods within those years beginning after December 15, 2012. The ASU should be applied prospectively for all companies. Early application is permitted. The adoption of this ASU did not have a material effect on United Community s financial statements.

4. STOCK COMPENSATION

Stock Options:

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 9,637 stock options granted in 2013 and there were 10,898 stock options granted in 2012 under the 2007 Plan. 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 $3,749 in stock option expenses for the three months ended March 31, 2013. The Company expects to recognize additional expense of $13,754 in 2013, $11,067 in 2014, and $6,381 in 2015.

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A summary of activity in the plans is as follows:

	For the three months ended March 31, 2013		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	1,309,942	$ 5.77	$ 640
Granted	9,637	3.37	5
Exercised	(2,600)	2.10	3
Forfeited	(236,476)	8.81	
Outstanding at end of period	1,080,503	5.09	$ 1,325
Options exercisable at end of period	1,046,124	5.19	$ 1,265

Information related to the stock option plans for the three months ended March 31, 2013 follows:

	March 31, 2013
Intrinsic value of options exercised	$ 2,960
Cash received from option exercises	5,460
Tax benefit realized from option exercises	
Weighted average fair value of options granted, per share	$ 2.64

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.

The fair value of options granted during the first quarter 2013 was determined using the following weighted-average assumptions as of the grant date.

	January 3, 2013	February 26, 2013
Risk-free interest rate	0.81%	0.78%
Expected term (years)	5	5
Expected stock volatility	86.47%	86.37%
Dividend yield	%	%

Outstanding stock options have a weighted average remaining life of 5.11 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 employees and nonemployee directors. Nonvested shares at March 31, 2013 aggregated 119,527, of which 49,251 will vest during 2013, 37,711 will vest during 2014, and 32,565 will vest during 2015. Expenses related to restricted stock awards are charged to salaries and employee benefits and are recognized over the vesting period of the awards based on the market value of the shares at the grant date. The Company recognized approximately $91,000 in restricted stock award expenses for the three months ended March 31, 2013. The Company expects to recognize additional expenses of approximately $237,000 for the remainder of 2013, $220,000 in 2014, and $86,000 in 2015.

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A summary of changes in the Company s nonvested restricted shares for the first three months 2013 is as follows:

	Shares	Weighted average grant date fair value
Nonvested shares at January 1, 2013	129,321	$ 2.86
Granted	1,828	3.25
Vested	(11,622)	1.29
Nonvested shares at March 31, 2013	119,527	$ 3.04

5. SECURITIES

Components of the available for sale portfolio are as follows:

	March 31, 2013 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Treasury and government sponsored entities securities	$ 233,405	$ 2,448	$ (704)	$ 235,149
Equity securities	100	238		338
Mortgage-backed GSE securities: residential	363,512	4,189	(1,081)	366,620
Total	$ 597,017	$ 6,875	$ (1,785)	$ 602,107

	December 31, 2012 (Dollars in thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. Treasury and government sponsored entities securities	$ 161,845	$ 2,409	$ (562)	$ 163,692
Equity securities	101	212		313
Mortgage-backed GSE securities: residential	404,563	6,142	(148)	410,557
Total	$ 566,509	$ 8,763	$ (710)	$ 574,562

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

	March 31, 2013 (Dollars in thousands)	
	Amortized Cost	Fair Value
Due in one year or less	$	$
Due after one year through five years		
Due after five years through ten years	139,078	140,879
Due after ten years through fifteen years	94,327	94,270

Mortgage-related securities	363,512	366,620
Total	$ 596,917	$ 601,769

Securities pledged for the Company s participation in the VISA payment processing program were approximately $3.0 million at March 31, 2013 and $5.8 million at December 31, 2012. Securities pledged for participation in the Ohio Linked Deposit Program were approximately $400,000 and $417,000 at March 31, 2013 and December 31, 2012, respectively.

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Securities available for sale in an unrealized loss position are as follows:

	March 31, 2013 (Dollars in thousands)					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and government sponsored entities securities	$ 68,138	$ (704)	$	$	$ 68,138	$ (704)
Mortgage-related securities	104,402	(1,081)			104,402	(1,081)
Total	$ 172,540	$ (1,785)	$	$	$ 172,540	$ (1,785)

	December 31, 2012 (Dollars in thousands)					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and government sponsored entities securities	$ 42,480	$ (562)	$	$	$ 42,480	$ (562)
Mortgage-related securities	72,020	(148)			72,020	(148)
Total	$ 114,500	$ (710)	$	$	$ 114,500	$ (710)

All of the U.S. Treasury and government sponsored entities and mortgage-backed securities that were temporarily impaired at March 31, 2013 and December 31, 2012, were impaired due to the level of interest rates at that time.

Proceeds from sales of securities available for sale were $27.9 million and $30.1 million for the three months ended March 31, 2013 and 2012, respectively. Gross gains of $721,000 and $414,000 were realized on these sales during the first quarter of 2013 and 2012, respectively.

6. LOANS

Portfolio loans consist of the following:

	March 31, 2013	December 31, 2012
	(Dollars in thousands)	
Real Estate:		
One-to four-family residential	$ 570,377	$ 577,249
Multi-family residential	69,857	80,923
Nonresidential	132,662	138,188
Land	15,216	15,808
Construction:		
One-to four-family residential and land development	32,866	28,318
Multi-family and nonresidential	4,584	4,534
Total real estate	825,562	845,020
Consumer		
Home equity	171,895	177,230
Auto	7,040	7,648
Marine	4,853	4,942
Recreational vehicles	20,388	22,250
Other	2,320	2,523
Total consumer	206,496	214,593
Commercial		
Secured	21,076	24,243
Unsecured	2,001	2,300
Total commercial	23,077	26,543
Total loans	1,055,135	1,086,156
Less:		
Allowance for loan losses	21,827	21,130
Deferred loan costs, net	(1,107)	(1,214)
Total	20,720	19,916
Loans, net	$ 1,034,415	$ 1,066,240

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. 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.

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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 March 31, 2013 and December 31, 2012 and activity for the three months ended March 31, 2013 and 2012. In accordance with GAAP, the net losses associated with loans sold as part of the bulk asset sale in the third quarter of 2012 were recorded as net chargeoffs of $38.2 million through the allowance for loan losses.

Allowance For Loan Losses

(Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Total
For the three months ended March 31, 2013					
Beginning balance (12/31/12)	$ 13,819	$ 1,404	$ 4,459	$ 1,448	$ 21,130
Provision	2,029	(18)	238	(185)	2,064
Chargeoffs	(1,206)	(226)	(600)	(128)	(2,160)
Recoveries	265	283	157	88	793
Ending balance (03/31/13)	$ 14,907	$ 1,443	$ 4,254	$ 1,223	$ 21,827
March 31, 2013					
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 3,108	$ 318	$	$ 10	$ 3,436
Loans collectively evaluated for impairment	11,799	1,125	4,254	1,213	18,391
Ending balance	$ 14,907	$ 1,443	$ 4,254	$ 1,223	$ 21,827
Period-end balances:					
Loans individually evaluated for impairment	$ 43,513	$ 4,937	$ 10,106	$ 2,057	$ 60,613
Loans collectively evaluated for impairment	744,599	32,513	196,390	21,020	994,522
Ending balance	$ 788,112	$ 37,450	$ 206,496	$ 23,077	$ 1,055,135

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.

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Allowance For Loan Losses

(Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Total
For the three months ended March 31, 2012					
Beginning balance (12/31/11)	$ 31,323	$ 4,493	$ 4,576	$ 1,879	$ 42,271
Provision	(1,537)	523	1,131	563	680
Chargeoffs	(5,356)	(2,144)	(860)	(424)	(8,784)
Recoveries	171	46	115	24	356
Ending balance (03/31/12)	$ 24,601	$ 2,918	$ 4,962	$ 2,042	$ 34,523
December 31, 2012					
Period-end amount allocated to:					
Loans individually evaluated for impairment	$ 2,380	$ 478	$	$ 166	$ 3,024
Loans collectively evaluated for impairment	11,439	926	4,459	1,282	18,106
Ending balance	$ 13,819	$ 1,404	$ 4,459	$ 1,448	$ 21,130
Period-end balances:					
Loans individually evaluated for impairment	$ 43,013	$ 7,547	$ 8,784	$ 1,673	$ 61,017
Loans collectively evaluated for impairment	769,155	25,305	205,809	24,870	1,025,139
Ending balance	$ 812,168	$ 32,852	$ 214,593	$ 26,543	$ 1,086,156

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.

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The following table presents loans individually evaluated for impairment by class of loans as of and for the three months ended March 31, 2013:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 19,294	$ 17,454	$	$ 19,759	$ 155	$ 164
Multifamily residential	775	681		1,784		1
Nonresidential	6,255	5,657		13,545	9	35
Land	3,700	3,700		4,278		
Total	30,024	27,492		39,366	164	200
Construction loans						
One-to four-family residential	12,493	1,526		3,855		3
Multifamily and nonresidential						
Total	12,493	1,526		3,855		3
Consumer loans						
Home Equity	9,463	8,874		6,685	108	116
Auto	58	37		48		1
Marine	188	188		226		2
Recreational vehicle	1,131	1,000		722	5	6
Other	7	7		5		
Total	10,847	10,106		7,686	113	125
Commercial loans						
Secured	2,046	1,141		1,307		18
Unsecured	3,291	712		250	15	11
Total	5,337	1,853		1,557	15	29
Total with no specific allowance recorded	$ 58,701	$ 40,977	$	$ 52,464	$ 292	$ 357

(Continued)

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 735	$ 735	$ 260	$ 1,269	$	$
Multifamily residential	1,120	1,064	281	2,062	2	2
Nonresidential	12,610	12,095	1,840	11,933	5	15
Land	3,913	2,127	727	2,441		
Total	18,378	16,021	3,108	17,705	7	17
Construction loans						
One-to four-family residential	5,306	3,411	318	6,801		
Multifamily and nonresidential						
Total	5,306	3,411	318	6,801		
Consumer loans						
Home Equity						
Auto						
Marine						
Recreational vehicle				18		
Other						
Total				18		
Commercial loans						
Secured	571	204	10	409		3
Unsecured						
Total	571	204	10	409		3
Total with a specific allowance recorded	24,255	19,636	3,436	24,933	7	20
Total impaired	$ 82,956	$ 60,613	$ 3,436	$ 77,397	$ 299	$ 377

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The following table presents loans individually evaluated for impairment by class of loans as of and for the three months ended March 31, 2012:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 32,370	$ 28,522	$	$ 26,423	$ 139	$ 209
Multifamily residential	4,840	3,871		4,143	10	51
Nonresidential	31,560	29,180		27,261	105	207
Land	7,822	6,260		6,727	8	16
Total	76,592	67,833		64,554	262	483
Construction loans						
One-to four-family residential	17,006	10,310		13,199	43	82
Multifamily and nonresidential	707					
Total	17,713	10,310		13,199	43	82
Consumer loans						
Home Equity	5,954	4,415		2,410	39	51
Auto	74	53		64		1
Marine	371	357		89		5
Recreational vehicle	1,094	749		214		10
Other	7	7		7		
Total	7,500	5,581		2,784	39	67
Commercial loans						
Secured	2,670	1,834		1,708	7	42
Unsecured	23,397	756		496	6	13
Total	26,067	2,590		2,204	13	55
Total with no specific allowance recorded	$ 127,872	$ 86,314	$	$ 82,741	$ 357	$ 687

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Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded						
Permanent real estate						
One-to four-family residential	$ 1,177	$ 630	$ 51	$ 2,882	$	$ 7
Multifamily residential	4,072	2,375	158	2,617		15
Nonresidential	37,594	34,043	3,993	37,846	193	370
Land	4,657	2,775	304	3,595		
Total	47,500	39,823	4,506	46,940	193	392
Construction loans						
One-to four-family residential	31,596	14,252	1,569	20,505	5	17
Multifamily and nonresidential						
Total	31,596	14,252	1,569	20,505	5	17
Consumer loans						
Home Equity						
Auto						
Marine				121		
Recreational vehicle	88	36	19	18		
Other						
Total	88	36	19	139		
Commercial loans						
Secured	865	516	181	3,857	1	2
Unsecured				452		
Total	865	516	181	4,309	1	2
Total with a specific allowance recorded	80,049	54,627	6,275	71,893	199	411
Total impaired	$ 207,921	$ 140,941	$ 6,275	$ 154,634	$ 556	$ 1,098

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The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2012:

Impaired Loans

(Dollars in thousands)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	$ 18,672	$ 16,947	$
Multifamily residential	1,173	1,078	
Nonresidential	13,240	12,638	
Land	4,577	3,804	
Total	37,662	34,467	
Construction loans			
One-to four-family residential	17,912	3,580	
Multifamily and nonresidential	571		
Total	18,483	3,580	
Consumer loans			
Home Equity	8,867	7,958	
Auto	68	44	
Marine	190	190	
Recreational vehicle	887	592	
Other			
Total	10,012	8,784	
Commercial loans			
Secured	2,122	1,212	
Unsecured	2,861	38	
Total	4,983	1,250	
Total	$ 71,140	$ 48,081	$

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(Continued)

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	$ 735	$ 735	$ 260
Multifamily residential	996	981	57
Nonresidential	5,218	4,703	1,336
Land	3,913	2,127	727
Total	10,862	8,546	2,380
Construction loans			
One-to four-family residential	6,455	3,967	478
Multifamily and nonresidential			
Total	6,455	3,967	478
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	798	423	166
Unsecured			
Total	798	423	166
Total	18,115	12,936	3,024
Total	$ 89,255	$ 61,017	$ 3,024

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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 March 31, 2013:

Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing

(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	$ 5,978	$
Multifamily residential	1,727	
Nonresidential	17,432	3,589
Land	5,957	
Total	31,094	3,589
Construction Loans		
One-to four-family residential	4,931	
Multifamily and nonresidential	0	
Total	4,931	
Consumer Loans		
Home Equity	2,994	
Auto	91	
Marine	171	5
Recreational vehicle	340	
Other	7	
Total	3,603	5
Commercial Loans		
Secured	891	
Unsecured	601	
Total	1,492	
Total	$ 41,120	$ 3,594

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Nonaccrual Loans and Loans Past Due Over 90 Days and Still Accruing

As of December 31, 2012

(Dollars in thousands)

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	$ 5,437	$
Multifamily residential	2,027	
Nonresidential	17,065	3,678
Land	6,047	
Total	30,576	3,678
Construction Loans		
One-to four-family residential	7,466	
Multifamily and nonresidential		
Total	7,466	
Consumer Loans		
Home Equity	3,298	
Auto	105	
Marine	176	
Recreational vehicle	1,259	
Other	4	
Total	4,842	
Commercial Loans		
Secured	1,194	
Unsecured	31	
Total	1,225	
Total	$ 44,109	$ 3,678

The following tables present an age analysis of past-due loans, segregated by class of loans as of March 31, 2013:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Real Estate Loans						
Permanent						
One-to four-family residential	$ 2,878	$ 208	$ 4,567	$ 7,653	$ 562,724	$ 570,377
Multifamily residential			1,727	1,727	68,130	69,857
Nonresidential	273	256	19,809	20,338	112,324	132,662
Land	148	36	5,957	6,141	9,075	15,216
Total	3,299	500	32,060	35,859	752,253	788,112
Construction Loans						
One-to four-family residential		137	4,863	5,000	27,866	32,866
Multifamily and nonresidential					4,584	4,584
Total		137	4,863	5,000	32,450	37,450
Consumer Loans						
Home Equity	905	349	2,148	3,402	168,493	171,895
Auto	6	3	52	61	6,979	7,040
Marine	67		21	88	4,765	4,853
Recreational vehicle	853	86	151	1,090	19,298	20,388
Other	1	10	6	17	2,303	2,320
Total	1,832	448	2,378	4,658	201,838	206,496
Commercial Loans						
Secured	325		204	529	20,547	21,076
Unsecured			604	604	1,397	2,001
Total	325		808	1,133	21,944	23,077
Total	$ 5,456	$ 1,085	$ 40,109	$ 46,650	$ 1,008,485	$ 1,055,135

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The following table presents an age analysis of past-due loans, segregated by class of loans as of December 31, 2012:

Past Due Loans

(Dollars in thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current Loans	Total Loans
Real Estate Loans						
Permanent						
One-to four-family residential	$ 1,995	$ 784	$ 4,495	$ 7,274	$ 569,975	$ 577,249
Multifamily residential	158		1,630	1,788	79,135	80,923
Nonresidential		176	19,942	20,118	118,070	138,188
Land	83		6,044	6,127	9,681	15,808
Total	2,236	960	32,111	35,307	776,861	812,168
Construction Loans						
One-to four-family residential	54		7,398	7,452	20,866	28,318
Multifamily and nonresidential					4,534	4,534
Total	54		7,398	7,452	25,400	32,852
Consumer Loans						
Home Equity	1,135	475	2,071	3,681	173,549	177,230
Auto	35	7	83	125	7,523	7,648
Marine			8	8	4,934	4,942
Recreational vehicle	447	32	353	832	21,418	22,250
Other		1	3	4	2,519	2,523
Total	1,617	515	2,518	4,650	209,943	214,593
Commercial Loans						
Secured	16		23	39	24,204	24,243
Unsecured		728	6	734	1,566	2,300
Total	16	728	29	773	25,770	26,543
Total	$ 3,923	$ 2,203	$ 42,056	$ 48,182	$ 1,037,974	$ 1,086,156

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The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2013:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	13	$ 743	$ 762
Multifamily residential			
Nonresidential			
Land			
Total	13	743	762
Construction Loans			
One-to four-family residential			
Multifamily and nonresidential			
Total			
Consumer Loans			
Home Equity	26	871	877
Auto			
Marine			
Recreational vehicle	4	791	804
Other			
Total	30	1,662	1,681
Commercial Loans			
Secured			
Unsecured			
Total			
Total Restructured Loans	43	$ 2,405	$ 2,443

The troubled debt restructurings described above increased the allowance for loan losses by $374,000, but did not result in any chargeoffs during the three months ended March 31, 2013.

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The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ended March 31, 2012:

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Recorded Investment
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	14	$ 1,956	$ 1,919
Multifamily residential	6	1,439	1,438
Nonresidential	1	424	424
Land			
Total	21	3,819	3,781
Construction Loans			
One-to four-family residential	3	853	830
Multifamily and nonresidential			
Total	3	853	830
Consumer Loans			
Home Equity	22	833	834
Auto			
Marine			
Recreational vehicle			
Other			
Total	22	833	834
Commercial Loans			
Secured			
Unsecured	1	446	446
Total	1	446	446
Total Restructured Loans	47	$ 5,951	$ 5,891

The troubled debt restructurings described above increased the allowance for loan losses by $78,000 and resulted in no charge offs during the three months ending March 31, 2012.

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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 March 31, 2013:

	Number of loans	Recorded Investment
	(Dollars in thousands)	
Real Estate Loans		
Permanent		
One-to four-family	5	$ 293
Multifamily residential		
Nonresidential		
Land		
Total	5	293
Construction Loans		
One-to four-family residential		
Multifamily and nonresidential		
Total		
Consumer Loans		
Home Equity	7	389
Auto		
Marine		
Recreational vehicle		
Other		
Total	7	389
Commercial Loans		
Secured		
Unsecured		
Total		
Total Restructured Loans	12	$ 682

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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 December 31, 2012:

	Number of loans	Recorded Investment
	(Dollars in thousands)	
Real Estate Loans		
Permanent		
One-to four-family	9	$ 851
Multifamily residential		
Nonresidential		
Land		
Total	9	851
Construction Loans		
One-to four-family residential		
Multifamily and nonresidential		
Total		
Consumer Loans		
Home Equity	2	77
Auto		
Marine		
Recreational vehicle		
Other		
Total	2	77
Commercial Loans		
Secured		
Unsecured		
Total		
Total Restructured Loans	11	$ 928

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 twelve months ended December 31, 2012, and had no effect on the provision for loan losses.

The terms of certain other loans were modified during the period ended March 31, 2013, but they did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of March 31, 2013 of $9.3 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:

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.

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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.

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As of March 31, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

Loans

March 31, 2013

(Dollars in thousands)

	Unclassified		Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Loans
Real Estate Loans							
Permanent							
One-to four-family residential	$ 562,131	$ 412	$ 7,834	$	$	$ 7,834	$ 570,377
Multifamily residential	57,458	8,338	4,061			4,061	69,857
Nonresidential	97,860	7,461	27,341			27,341	132,662
Land	9,116	273	5,827			5,827	15,216
Total	726,565	16,484	45,063			45,063	788,112
Construction Loans							
One-to four-family residential	27,735	194	4,937			4,937	32,866
Multifamily and nonresidential	4,584						4,584
Total	32,319	194	4,937			4,937	37,450
Consumer Loans							
Home Equity	168,649		3,246			3,246	171,895
Auto	6,885	47	108			108	7,040
Marine	4,659	6	188			188	4,853
Recreational vehicle	19,998		390			390	20,388
Other	2,306		14			14	2,320
Total	202,497	53	3,946			3,946	206,496
Commercial Loans							
Secured	17,427	868	2,781			2,781	21,076
Unsecured	1,071	55	875			875	2,001
Total	18,498	923	3,656			3,656	23,077
Total	$ 979,879	$ 17,654	$ 57,602	$	$	$ 57,602	$ 1,055,135

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Loans

December 31, 2012

(Dollars in thousands)

	Unclassified		Classified				
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Loans
Real Estate Loans							
Permanent							
One-to four-family residential	$ 569,204	$ 459	$ 7,586	$	$	$ 7,586	$ 577,249
Multifamily Residential	69,060	8,409	3,454			3,454	80,923
Nonresidential	99,275	12,234	26,679			26,679	138,188
Land	9,596	280	5,932			5,932	15,808
Total	747,135	21,382	43,651			43,651	812,168
Construction Loans							
One-to four-family Residential	20,577	196	7,545			7,545	28,318
Multifamily and Nonresidential	4,534						4,534
Total	25,111	196	7,545			7,545	32,852
Consumer Loans							
Home Equity	173,696	82	3,534			3,534	177,230
Auto	7,453	7	113			113	7,648
Marine	4,745		190			190	4,942
Recreational vehicle	20,859		1,391			1,391	22,250
Other	2,507		16			16	2,523
Total	209,260	89	5,244			5,244	214,593
Commercial Loans							
Secured	20,843	769	2,631			2,631	24,243
Unsecured	1,481	11	808			808	2,300
Total	22,324	780	3,439			3,439	26,543
Total	$ 1,003,830	$ 22,447	$ 59,879	$	$	$ 59,879	$ 1,086,156

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7. MORTGAGE BANKING ACTIVITIES

Mortgage loans serviced for others, which are not reported in United Community s assets, totaled $1.1 billion at March 31, 2013 and December 31, 2012. Mortgage banking income is comprised of gains recognized on the sale of loans and changes in fair value of mortgage banking derivatives.

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans are as follows:

	March 31, 2013	December 31, 2012
Mortgage loan portfolios serviced for:		
FHLMC	$ 819,209	$ 817,108
FNMA	311,026	316,142

Escrow balances are maintained at the FHLB in connection with serviced loans totaling $2.2 million and $1.7 million at March 31, 2013 and December 31, 2012, respectively.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Balance, beginning of year	$ 5,506	$ 6,375
Originations	1,282	531
Amortized to expense	(660)	(641)
Balance, end of period	6,128	6,265
Less valuation allowance	(245)	(837)
Net balance	$ 5,883	$ 5,428

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Balance, beginning of year	$ (680)	$ (1,785)
Impairment charges		
Recoveries	435	948
Balance, end of period	$ (245)	$ (837)

The fair value of mortgage servicing rights as of March 31, 2013, was approximately $7.6 million and at December 31, 2012, the fair value was approximately $6.8 million.

Key economic assumptions in measuring the value of mortgage servicing rights at March 31, 2013, and December 31, 2012, were as follows:

	March 31, 2013	December 31, 2012
Weighted average prepayment rate	347 PSA	401 PSA
Weighted average life (in years)	3.97	3.93
Weighted average discount rate	8.00%	8.00%

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8. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

Real estate owned and other repossessed assets at March 31, 2013 and 2012 were as follows:

	March 31, 2013	March 31, 2012
	(Dollars in thousands)	
Real estate owned and other repossessed assets	$ 21,989	$ 34,959
Valuation allowance	(6,207)	(5,902)
End of period	$ 15,782	$ 29,057

Activity in the valuation allowance was as follows:

	March 31, 2013	March 31, 2012
	(Dollars in thousands)	
Beginning of year	$ 6,796	$ 8,764
Additions charged to expense	323	128
Direct write-downs	(912)	(2,990)
End of period	$ 6,207	$ 5,902

Expenses related to foreclosed and repossessed assets include:

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Net loss on sales	$ 108	$ 601
Provision for unrealized losses, net	323	128
Operating expenses, net of rental income	493	702
Total expenses	$ 924	$ 1,431

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	Three Months Ended March 31, 2012

	March 31, 2013	
	(Dollars in thousands)	
Service cost	$ 0	$ 0
Interest cost	13	19
Expected return on plan assets	0	0
Net amortization of prior service cost	(19)	(20)
Recognized net actuarial gain	(28)	(23)
Net periodic benefit cost/(gain)	($34)	($24)
Assumptions used in the valuations were as follows:		
Weighted average discount rate	3.00%	4.00%

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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.

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).

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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).

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

		Fair Value Measurements at March 31, 2013 Using:		
	March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	$ 235,149	$	$ 235,149	$
Equity securities	338	338		
Mortgage-backed GSE securities: residential	366,620		366,620	
Interest rate caps	444			444

		Fair Value Measurements at December 31, 2012 Using:		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Available for sale securities				
US Treasury and government sponsored entities securities	$ 163,692	$	$ 163,692	$
Equity securities	313	313		
Mortgage-backed GSE securities: residential	410,557		410,557	
Interest rate caps	436			436

There were no transfers between Level 1 and Level 2 during 2013 or 2012.

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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 months ended March 31, 2013 and 2012, in thousands:

	Interest Rate Caps	
	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Balance of recurring Level 3 assets at beginning of period	$ 436	$ 1,933
Total gains (losses) for the period		
Included in other income	138	(157)
Included in other comprehensive income		
Purchases		
Amortization	(130)	(130)
Sales		
Balance of recurring Level 3 assets at end of period	$ 444	$ 1,646

There were no transfers between Level 2 and Level 3 during 2013 or 2012.

The following table presents quantitative information about recurring Level 3 fair value measurements at March 31, 2013:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
		(Dollars in thousands)		
Interest rate caps	$ 444	Discounted 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:

		Fair Value Measurements at March 31, 2013 Using:		
	March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Impaired loans:				
Permanent real estate loans	$ 12,913	$	$	$ 12,913
Construction loans	3,093			3,093
Commercial loans	194			194
Mortgage servicing assets	2,112		2,112	
Other real estate owned, net:				

Permanent real estate loans	3,365	3,365
Construction loans	5,396	5,396

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		Fair Value Measurements at December 31, 2012 Using:		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Impaired loans:				
Permanent real estate loans	$ 6,166	$	$	$ 6,166
Construction loans	3,489			3,489
Commercial loans	257			257
Mortgage servicing assets	4,920		4,920	
Other real estate owned, net:				
Permanent real estate loans	3,172			3,172
Construction loans	6,918			6,918

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 net carrying amount of $16.2 million at March 31, 2013, which includes a specific valuation allowance of $3.4 million. This resulted in an increase in the provision for loan losses of $2.9 million during the three months ended March 31, 2013. 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 $54.6 million at March 31, 2012, with a specific valuation allowance of $6.3 million. This resulted in a decrease of provision for loan losses of $631,000 during the three months ended March 31, 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 net carrying amount of $9.9 million at December 31, 2012, which includes a specific valuation allowance of $3.0 million. This resulted in an increase of the provision for loan losses of $27,000 during the twelve months ended December 31, 2012.

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 March 31, 2013, mortgage servicing rights, carried at fair value, totaled $5.9 million, which is made up of the outstanding balance of $6.1 million, net of a valuation allowance of $245,000. At March 31, 2012, mortgage servicing rights, carried at fair value, totaled $4.2 million, which is made up of the outstanding balance of $6.3 million, net of valuation allowance. At December 31, 2012, mortgage servicing rights, carried at fair value, totaled $4.9 million, which is made up of the outstanding balance of $5.6 million, net of a valuation allowance of $680,000, resulting in a net recovery of $1.1 million for the year ended December 31, 2012. 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 March 31, 2013, 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 $8.8 million with a valuation allowance of $6.2 million. This resulted in additional expenses of $323,000 during the three months ended March 31, 2013. Other real estate owned, carried at fair value, which are measured for impairment using the fair value of the property less estimated selling costs, had a carrying amount of $16.4 million, with a valuation allowance of $5.9 million at March 31, 2012. This resulted in additional expenses of $128,000 during the three months ended March 31, 2012. At December 31, 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 $10.1 million with a valuation allowance of $6.8 million. This resulted in additional expenses of $2.2 million during the twelve months ended December 31, 2012.

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at March 31, 2013:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Average)
		(In thousands)		
Impaired loans:				
Permanent real estate loans	$ 12,913	Sales comparison approach	Adjustment for differences between comparable sales	12.07%-45.44% (28.75%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	7.52%-10.73% (9.49%)
Construction loans	3,093	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-25.00% (9.83%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	10.00%
Commercial loans	194	Sales comparison approach	Adjustment for differences between comparable sales	1.6%-24.18% (11.15%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	8.5%-10% (9.25%)
Foreclosed assets:				
Permanent real estate loans	3,365	Sales comparison approach	Adjustment for differences between comparable sales	3.60%-16.47% (10.20%)

Construction loans	5,396	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-47.24% (17.63%)

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The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2012:

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Average)
	(Dollars in thousands)			
Impaired loans:				
Permanent real estate loans	$ 6,166	Sales comparison approach	Adjustment for differences between comparable sales	12.07%-45.44% (28.75%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	7.52%-10.73% (9.49%)
Construction loans	3,489	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-25.00% (9.83%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	10.00%
Commercial loans	257	Sales comparison approach	Adjustment for differences between comparable sales	1.6%-24.18% (11.15%)
		Income approach	Adjustment for differences in net operating income	
			Capitalization rate	8.5%-10% (9.25%)
Foreclosed assets:				
Permanent real estate loans	3,172	Sales comparison approach	Adjustment for differences between comparable sales	3.60%-16.47% (10.20%)

Construction loans	6,918	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-47.24% (17.63%)

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In accordance with generally accepted accounting principles, the carrying value and estimated fair values of financial instruments at March 31, 2013 and December 31, 2012, were as follows:

	March 31, 2013 Carrying Value	Fair Value Measurements at March 31, 2013 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In thousands)		
Assets:				
Cash and cash equivalents	$ 78,084	$ 78,084	$	$
Available for sale securities	602,107	338	601,769	
Loans held for sale	9,268		9,422	
Loans, net	1,034,415			1,051,176
FHLB stock	26,464	n/a	n/a	n/a
Accrued interest receivable	5,587			5,587
Interest rate caps	444			444
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(922,965)	(922,965)		
Certificates of deposit	(537,995)		(549,523)	
FHLB advances	(50,000)		(57,005)	
Repurchase agreements and other	(90,593)		(100,641)	
Advance payments by borrowers for taxes and insurance	(14,258)		(14,258)	
Accrued interest payable	(597)		(597)	

	December 31, 2012 Carrying Value	Fair Value Measurements at December 31, 2012 Using: (Level 1)	(Level 2)	(Level 3)
		(Dollars in thousands)		
Assets:				
Cash and cash equivalents	$ 42,613	$ 42,613	$	$
Available for sale securities	574,562	313	574,249	
Loans held for sale	13,031		13,428	
Loans, net	1,066,240			1,087,205
FHLB stock	26,464	n/a	n/a	n/a
Accrued interest receivable	6,238		2,380	3,858
Interest rate caps	436			436
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(902,776)	(902,776)		
Certificates of deposit	(559,298)		(571,836)	
FHLB advances	(50,000)		(57,077)	
Repurchase agreements and other	(90,598)		(102,086)	
Advance payments by borrowers for taxes and insurance	(23,590)		(23,590)	
Accrued interest payable	(563)		(563)	

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 approximate their fair values at the reporting date resulting in a Level 1 classification. Fair values for fixed and variable 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.

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(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 Home Savings 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.

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Supplemental disclosures of cash flow information		
Cash paid (received) during the period for:		
Interest on deposits and borrowings	$ 3,485	$ 5,605
Supplemental schedule of noncash activities:		
Loans transferred from portfolio to held for sale		1,214
Transfers from loans to real estate owned and other repossessed assets	664	3,154
Transfers from real estate owned to premises and equipment		1,746
Amortization of preferred stock discount	821	

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12. EARNINGS PER SHARE

The Company has granted stock compensation awards with nonforfeitable dividend rights which are considered participating securities. As such, earnings per share is computed using the two-class method as required by Accounting Standard Codification 206-10-45. Basic earnings per common share is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted earnings per common share includes the dilutive effect of additional potential common shares from stock compensation awards, but also excludes awards considered participating securities. Stock options for 816,342 shares were anti-dilutive for the three months ended March 31, 2013. Stock options for 1,644,503 shares were anti-dilutive for the three months ended March 31, 2012. Convertible preferred stock totaling 7,942 shares was anti-dilutive for the three months ended March 31, 2013.

	Three months ended March 31, 2013	Three months ended March 31, 2012
	(In thousands, except per share data)	
Net income per consolidated statements of income	$ 2,682	$ 3,796
Amortization of discount on preferred stock	(821)	
Net income available to common shareholders	1,861	3,796
Net income allocated to participating securities	(10)	(13)
Net income allocated to common shareholders	$ 1,851	$ 3,783
Basic earnings per common share computation:		
Distributed earnings allocated to common shareholders	$	$
Undistributed earnings allocated to common shareholders	1,851	3,783
Net income allocated to common shareholders	$ 1,851	$ 3,783
Weighted average common shares outstanding, including shares considered participating securities	33,689	32,803
Less: Average participating securities	(124)	(110)
Weighted average shares	33,565	32,693
Basic earnings per common share	$ 0.06	$ 0.12
Diluted earnings per common share computation:		
Net earnings allocated to common shareholders	$ 1,851	$ 3,783
Weighted average common shares outstanding for basic earnings per common share	33,565	32,693
Add: Dilutive effects of assumed exercises of stock options	264	4
Add: Dilutive effects of convertible preferred stock		
Weighted average shares and dilutive potential common shares	33,829	32,693
Diluted earnings per common share	$ 0.05	$ 0.12

As previously announced and described under Note 15 below, on March 22, 2013, United Community sold 7,942 preferred shares to various investors. In accordance with U.S. Generally Accepted Accounting Principles, United Community will record a beneficial conversion feature (BCF) related to the issuance of these preferred shares because they contain a conversion feature at a fixed rate that was in-the-money when issued. A BCF is in-the-money when the investor is deemed to be able to obtain the underlying common shares at a below market price upon conversion of the preferred shares. The BCF will be recognized in United Community s Shareholders Equity and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The effective purchase price of the common shares into which the preferred shares are convertible is deemed to be $2.75, which is used to compute the intrinsic value. The intrinsic value is calculated as the difference between the deemed purchase price of the common shares ($2.75 per share) and the market value ($3.60 per share) on the date the preferred shares were issued, March 22, 2013, multiplied by the number of shares into which the preferred shares are convertible. The BCF from the issuance of the convertible preferred shares resulted in $6,750,700 being recorded in United Community s Shareholders Equity as a reduction of preferred stock and an increase to additional paid-in capital. Because additional paid-in capital is included in United Community s calculation of book value per common share, the additional paid-in capital recorded as a result of the BCF increased United Community s book value per common share as of March 31, 2013. However, because the BCF is amortized over the period that the preferred shares are expected to be outstanding, this amortization will result in a reduction of book value per common share (defined as shareholders equity minus preferred stock divided by the number of common shares outstanding) over this time period for the same amount.

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The BCF resulting from the issuance of the preferred shares of United Community is calculated as follows:

Total common shares that may be issued upon conversion of preferred shares	7,942,000
Intrinsic value (Difference between consideration allocated to preferred stock upon conversion at $2.75 per share and market price of $3.60 per share on March 22, 2013)	$ 0.85
Beneficial conversion feature	$ 6,750,700

The BCF has no effect on net income. The BCF calculated above is deemed to be an implied dividend for purposes of determining earnings per common share in accordance with U.S. Generally Accepted Accounting Principles, and is amortized over the period the preferred shares are expected to be outstanding. The preferred shares will convert to common shares upon shareholder approval which is being sought in the second quarter 2013. This amortization results in a reduction to retained earnings and thus net income available to common shareholders for earnings per common share purposes. Therefore, United Community will take into account the BCF discount when computing earnings per common share in 2013.

13. 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 $721,000 and no impairment charges at March 31, 2013, and gains on sales of securities of $414,000 and no impairment charges at March 31, 2012.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
	(Dollars in thousands)	
Unrealized holding gain (loss) on securities available for sale	$ (2,242)	$ (2,469)
Unrealized holding gain (loss) on postretirement benefits		
Reclassification adjustment for (gains) losses realized in income	(721)	(414)
Net unrealized gains	(2,963)	(2,883)
Tax effect		
Net of tax amount	$ (2,963)	$ (2,883)

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

	Balance at December 31, 2012	Current Period Change	Balance at March 31, 2013
Unrealized gains (losses) on securities available for sale	$ 5,082	$ (2,963)	$ 2,119
Unrealized gains (losses) on post-retirement benefits	1,600		1,600
Total	$ 6,682	$ (2,963)	$ 3,719

The following is a summary of each component of accumulated other comprehensive income (loss) that was reclassified into net income during the period:

	Unrealized gains/losses on Available for Sale Securities	Postretirement Benefits	Total
Beginning balance	$ 5,082	$ 1,600	$ 6,682
Other comprehensive loss before reclassification	(2,242)		(2,242)
Amounts reclassified from accumulated other comprehensive income	(721)		(721)
Net current period other comprehensive loss	(2,963)		(2,963)
Ending balance	$ 2,119	$ 1,600	$ 3,719

14. 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 in keeping with 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 is also subject to qualitative judgments by the regulators about components of capital, risk weightings, and other factors.

Quantitative measures established by regulation for capital adequacy require Home Savings to maintain minimum 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 regulatory required capital ratios for Home Savings, along with the dollar amount of capital implied by such ratios, are presented below.

	As of March 31, 2013			
	Actual		Minimum Capital Requirements Per Memorandum of Understanding	
	Amount	Ratio	Amount	Ratio
	(In thousands)			
Total risk-based capital to risk-weighted assets	$ 192,863	18.28%	$ 126,632	12.00%
Tier 1 capital to risk-weighted assets	179,566	17.02%	*	*
Tier 1 capital to average total assets**	179,566	9.84%	164,221	8.50%

	As of March 31, 2013			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
	(In thousands)			
Total risk-based capital to risk-weighted assets	$ 84,421	8.00%	$ 105,527	10.00%
Tier 1 capital to risk-weighted assets	*	*	63,316	6.00%
Tier 1 capital to average total assets**	72,987	4.00%	91,234	5.00%

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	As of December 31, 2012			
	Actual		Minimum Capital Requirements Per Bank Order	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 174,139	16.21%	$ 128,948	12.00%
Tier 1 capital to risk-weighted assets	160,612	14.95%	*	*
Tier 1 capital to average total assets**	160,612	8.70%	166,226	9.00%

	As of December 31, 2012			
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total risk-based capital to risk-weighted assets	$ 85,965	8.00%	$ 107,457	10.00%
Tier 1 capital to risk-weighted assets	*	*	64,474	6.00%
Tier 1 capital to average total assets**	73,878	4.00%	92,348	5.00%

* Ratio is not required under regulations

** Tier 1 Leverage Capital Ratio

As of March 31, 2013, Home Savings is now considered well capitalized, but must maintain a ratio of total risk based capital to risk weighted assets of 12.0% and a Tier 1 Capital to average total assets ratio of 8.5% in accordance with the MOU. As of December 31, 2012, the FDIC categorized Home Savings as adequately capitalized pursuant to the Consent Order. However, once the Consent Order was terminated on January 31, 2013, Home Savings was then considered well capitalized.

Pursuant to the Consent Order issued by the FDIC and Ohio Division, Home Savings needed to maintain a Tier 1 Leverage Capital 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. While the Consent Order was in effect, if either ratio had fallen below its limit at the end of any given quarter, then Home Savings would have had to have restored its capital ratios to required levels within 90 days.

The Bank s Tier 1 Leverage Capital Ratio was 8.70% at December 31, 2012. While Home Savings was still operating under a Consent Order at December 31, 2012 requiring a minimum Tier 1 Leverage Capital Ratio of 9.0%, the Company worked closely with its regulators to keep them informed of the bulk sale of troubled assets that took place on September 22, 2012, and obtained their concurrence to complete the bulk sale along with the Bank s commitment to meet the 9.0% requirement by March 31, 2013. Under the terms of the MOU entered into on January 31, 2013, Home Savings is required to maintain a Tier 1 Leverage Capital Ratio of 8.50%.

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.

15. CAPITAL RAISE

On March 22, 2013, United Community sold to 28 accredited investors (the Investors), in a private offering, an aggregate of approximately $39.9 million in United Community securities, including 6,574,272 newly issued common shares at a purchase price of $2.75 per share, and 7,942 newly created and issued perpetual mandatorily convertible non-cumulative preferred shares of United Community at a purchase price of $2,750 per share. Legal, investment banking and other consulting expenses incurred by United Community to complete this private placement portion of the capital raise aggregated $4.0 million. The increase in equity from this private placement was reduced by these expenses. On March 26, 2013, the Board of Directors of United Community approved an equity investment by United Community of $16.0 million into Home Savings.

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Upon receipt of United Community shareholder approval, each of the preferred shares will automatically convert into 1,000 United Community common shares. However, there can be no assurance that United Community will receive such shareholder approval. The preferred shares will initially not pay any dividends, but if they are not converted into common shares prior to June 30, 2013, semi-annual non-cumulative cash dividends will take effect at an annual rate of 12.00%, payment of which is subject to regulatory approval. The preferred shares are redeemable by United Community at any time upon prior receipt of applicable regulatory approvals.

Also on January 11, 2013, United Community entered into subscription agreements with certain of United Community s directors, officers and their affiliates pursuant to which these insider investors will invest an aggregate of approximately $2.1 million in United Community for 755,820 newly issued common shares, at the same purchase price of $2.75 per share. The issuance and sale of such common shares to the insider investors is subject to United Community shareholder approval.

16. INCOME TAXES

As of March 31, 2013 and December 31, 2012, the deferred tax asset was $28.8 million. Management recorded a valuation allowance against deferred tax assets at March 31, 2013 and December 31, 2012 based primarily on its cumulative pre-tax losses during the past three years. 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.

Based on the offering of stock in the first quarter of 2013, management has made a preliminary assessment that a change in ownership in accordance with the guidelines of section 382 of the Internal Revenue Code of 1986 has not occurred.

17. SUBSEQUENT EVENTS

On April 26, 2013, United Community issued a prospectus for the purpose of offering existing shareholders the right to purchase up to $5.0 million of United Community common shares at $2.75 per share.

Under the terms of this rights offering, United Community will distribute, at no charge to shareholders of record, non-transferable subscription rights to purchase up to 1,818,181 of United Community common shares. Each shareholder will receive the right to purchase 0.06 common shares for each common share held as of 5:00 p.m. Eastern Standard Time, on March 21, 2013, the record date of the rights offering. Each subscription right will entitle the shareholder to purchase one common share at a subscription price of $2.75 per share, which is referred to as the basic subscription privilege, subject to certain limitations and subject to allotment. Shareholders will also be entitled to exercise an oversubscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of any unsubscribed common shares at the same subscription price of $2.75 per share.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	At or For the Three Months Ended March 31, 2013	2012
Selected financial ratios and other data: (1)		
Performance ratios:		
Return on average assets (2)	0.59%	0.74%
Return on average equity (3)	6.14%	7.89%
Interest rate spread (4)	2.86%	3.11%
Net interest margin (5)	3.01%	3.30%
Noninterest expense to average assets	3.05%	3.23%
Efficiency ratio (6)	75.55%	77.35%
Average interest-earning assets to average interest-bearing liabilities	118.44%	115.63%
Capital ratios:		
Average equity to average assets	9.60%	9.41%
Equity to assets, end of period	11.27%	9.31%
Tier 1 leverage ratio	9.84%	8.96%
Tier 1 risk-based capital ratio	17.02%	13.94%
Total risk-based capital ratio	18.28%	15.21%
Asset quality ratio:		
Nonperforming loans to total loans at end of period (7)	4.32%	8.29%
Nonperforming assets to average assets (8)	3.32%	6.79%
Nonperforming assets to total assets at end of period	3.30%	6.81%
Allowance for loan losses as a percent of loans	2.07%	2.54%
Allowance for loan losses as a percent of nonperforming loans (7)	48.81%	31.41%
Texas ratio (9)	26.52%	61.98%
Total classified assets as a percent of Tier 1 Capital	40.87%	106.60%
Total classified loans as a percent of Tier 1 Capital and ALLL	28.60%	89.76%
Total classified assets as a percent of Tier 1 Capital and ALLL	36.44%	103.06%
Net chargeoffs as a percent of average loans	0.52%	2.48%
Total 90+ days past due as a percent of total loans	3.88%	6.90%
Office data:		
Number of full service banking offices	33	34
Number of loan production offices	9	8
Per share data:		
Basic earnings per common share (10)	$ 0.06	$ 0.12
Diluted earnings per common share (10)	0.05	0.12
Book value per common share (11)	4.81	5.78
Tangible book value per common share (12)	4.81	5.77

Notes:

1. Ratios for the three month periods are annualized where appropriate
2. Net income divided by average total assets
3. Net income divided by average total equity
4. Difference between weighted average yield on interest-earning assets and weighted average cost of interest-bearing liabilities
5. Net interest income as a percent of average interest-earning assets
6. Noninterest expense, excluding the amortization of the core deposit intangible, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities, other than temporary impairment charges, and gains and losses on foreclosed assets
7. Nonperforming loans consist of nonaccrual loans and loans past due ninety days and still accruing
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. Net income available to common shareholders divided by the number of basic or diluted shares outstanding
11. Shareholders equity minus preferred stock divided by number of common shares outstanding
12. Shareholders equity minus preferred stock and core deposit intangible divided by number of common shares outstanding

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Forward Looking Statements

When used in this Form 10-Q, the words or phrases will likely result, are expected to, plan to, will continue, is anticipated, estimate, pro similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, including changes in economic conditions in United Community s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in Home Savings market area, and competition that could cause actual results to differ materially from results presently anticipated or projected. United Community cautions readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. United Community advises readers that the factors listed above could affect United Community s financial performance and could cause United Community s actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. United Community undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made.

Comparison of Financial Condition at March 31, 2013 and December 31, 2012

Total assets increased $23.4 million to $1.8 billion at March 31, 2013, compared to December 31, 2012. Contributing to the change was an increase in cash and cash equivalents of $35.5 million and an increase in available for sale securities of $27.5 million offset by a decrease in net loans of $31.8 million, a decrease in net loans held for sale of $3.8 million and a decrease in real estate owned and other repossessed assets of $2.7 million.

Funds not currently utilized for general corporate purposes are invested in overnight funds and available for sale securities. Cash and cash equivalents increased during the first quarter of 2013 as a result of the increase in balances maintained at the Federal Reserve due to the private placement portion of United Community s capital raise. On March 22, 2013, United Community received $39.9 million ($18.1 million for 6,574,272 common shares and $21.8 million for 7,942 preferred shares) from the private placement portion of the capital raise.

In the first three months of 2013, the Company sold approximately $27.9 million in available for sale securities, recognizing $721,000 in net gains on the sales. The Company also purchased securities with a face value of $115.0 million to replace the securities sold during the period and to replace loan balances that continued to decline. Maturities, paydowns, and the change in the unrealized gain on the portfolio also contributed to the change in the size of the securities portfolio.

Loans held for sale were $9.3 million at March 31, 2013, compared to $13.0 million at December 31, 2012. The change was primarily attributable to the timing of sales during the period. Home Savings sells a portion of newly originated loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Net loans decreased $31.8 million during the first three months of 2013. Contributing to the decrease were a decline in overall loan demand during the period, continued refinance activity in Home Savings mortgage portfolio, and continued resolution of nonperforming and classified credits.

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The following table summarizes the trend in the allowance for loan losses as of March 31, 2013:

	Allowance For Loan Losses *(Dollars in thousands)*				
	December 31, 2012	**Provision**	**Recovery**	**Chargeoff**	**March 31, 2013**
Real Estate Loans					
Permanent					
One-to four-family residential	$ 6,958	$ 1,004	$ 52	$ (689)	$ 7,325
Multifamily residential	1,223	195	10	(51)	1,377
Nonresidential	4,801	1,055	7	(466)	5,397
Land	837	(225)	196		808
Total	13,819	2,029	265	(1,206)	14,907
Construction Loans					
One-to four-family residential	1,267	(37)	281	(206)	1,305
Multifamily and nonresidential	137	19	2	(20)	138
Total	1,404	(18)	283	(226)	1,443
Consumer Loans					
Home Equity	3,150	325	29	(387)	3,117
Auto	49	(2)	3	(2)	48
Marine	264	(119)	1		146
Recreational vehicle	829	196	46	(144)	927
Other	167	(162)	78	(67)	16
Total	4,459	238	157	(600)	4,254
Commercial Loans					
Secured	783	(45)	7	(128)	617
Unsecured	665	(140)	81		606
Total	1,448	(185)	88	(128)	1,223
Total	$ 21,130	$ 2,064	$ 793	$ (2,160)	$ 21,827

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 increased to $21.8 million at March 31, 2013, from $21.1 million at December 31, 2012, an increase of $697,000. The allowance for loan losses as a percentage of loans was 2.07% at March 31, 2013, compared to 1.94% at December 31, 2012. The allowance for loan losses as a percentage of nonperforming loans was 48.81% at March 31, 2013, compared to 44.22% at December 31, 2012. 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. 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.

A loan is considered impaired when there is a deterioration of the credit worthiness of the borrower to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. The total outstanding balance of all impaired loans was $60.6 million at March 31, 2013 as compared to $61.0 million at December 31, 2012. The schedule below summarizes impaired loans for

March 31, 2013 and December 31, 2012.

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Impaired Loans

(Dollars in thousands)

	March 31, 2013	December 31, 2012	Change
Real Estate Loans			
Permanent			
One-to four-family residential	$ 18,189	$ 17,681	$ 508
Multifamily residential	1,745	2,059	(314)
Nonresidential	17,752	17,341	411
Land	5,827	5,931	(104)
Total	43,513	43,012	501
Construction Loans			
One-to four-family residential	4,937	7,547	(2,610)
Multifamily and nonresidential			
Total	4,937	7,547	(2,610)
Consumer Loans			
Home Equity	8,874	7,959	915
Auto	37	44	(7)
Boat	188	190	(2)
Recreational vehicle	1,000	592	408
Other	7		7
Total	10,106	8,785	1,321
Commercial Loans			
Secured	1,345	1,635	(290)
Unsecured	712	38	674
Total	2,057	1,673	384
Total Impaired Loans	$ 60,613	$ 61,017	$ (404)

The decrease in impaired loans can be largely attributed to the resolution of loans through principal payments, charge offs, sale of the loan or collateral, or by Home Savings taking possession of the collateral.

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;

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.

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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 three months ended March 31, 2013 is as follows:

Troubled Debt Restructurings

	March 31, 2013	December 31, 2012	Change
		(Dollars in thousands)	
Real Estate Loans			
Permanent			
One-to four-family	$ 15,744	$ 15,299	$ 445
Multifamily residential			
Nonresidential	921	946	(25)
Land		105	(105)
Total	16,665	16,350	315
Construction Loans			
One-to four-family residential	119	576	(457)
Multifamily and nonresidential			
Total	119	576	(457)
Consumer Loans			
Home Equity	8,740	7,253	1,487
Auto	13	13	
Marine			
Recreational vehicle	755		755
Other	7	7	
Total	9,515	7,273	2,242

Commercial Loans			
Secured	1,129	1,212	(83)
Unsecured		25	(25)
Total	1,129	1,237	(108)
Total Restructured Loans	$ 27,428	$ 25,436	$ 1,992

The increase in the level of TDR loans during the three months ended March 31, 2013 was attributable primarily to focused modification efforts within the home equity portfolio.

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 $3.6 million and $4.4 million at March 31, 2013 and December 31, 2012, respectively. Such loans are considered nonperforming loans. TDR loans that were accruing according to their terms aggregated $23.8 million and $21.0 million at March 31, 2013 and December 31, 2012, respectively.

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Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were $44.7 million, or 4.32% of net loans, at March 31, 2013, compared to $47.8 million, or 4.48% of net loans, at December 31, 2012.

The schedule below summarizes the change in nonperforming loans for the first three months of 2013.

Nonperforming Loans

(Dollars in thousands)

	March 31, 2013	December 31, 2012	Change
Real Estate Loans			
Permanent			
One-to four-family residential	$ 5,978	$ 5,437	$ 541
Multifamily residential	1,727	2,027	(300)
Nonresidential	21,021	20,743	278
Land	5,957	6,047	(90)
Total	34,683	34,254	429
Construction Loans			
One-to four-family residential	4,931	7,465	(2,534)
Multifamily and nonresidential			
Total	4,931	7,465	(2,534)
Consumer Loans			
Home Equity	2,994	3,298	(304)
Auto	91	105	(14)
Marine	176	176	
Recreational vehicle	340	1,259	(919)
Other	7	5	2
Total	3,608	4,843	(1,235)
Commercial Loans			
Secured	891	1,194	(303)
Unsecured	601	31	570
Total	1,492	1,225	267
Total Nonperforming Loans	$ 44,714	$ 47,787	$ (3,073)

Loans held for sale decreased $3.8 million, or 28.9%, to $9.3 million at March 31, 2013, compared to $13.0 million at December 31, 2012. 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 March 31, 2013 and December 31, 2012. During the first three months of 2013, the FHLB paid a cash dividend in lieu of a stock dividend to its member banks.

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Real estate owned and other repossessed assets decreased $2.7 million, or 14.4%, during the three months ended March 31, 2013. The following table summarizes the activity in real estate owned and other repossessed assets during the period:

	Real Estate Owned	Repossessed Assets	Total
Balance at Beginning of period	$ 18,075	$ 365	$ 18,440
Acquisitions	359	305	664
Sales, net of gains	(2,780)	(237)	(3,017)
Change in valuation allowance	(305)		(305)
Balance at End of period	$ 15,349	$ 433	$ 15,782

The following table depicts the type of property secured in the satisfaction of loans and the valuation allowance associated with each type as of March 31, 2013:

	Balance	Valuation Allowance	Net Balance
		(In thousands)	
Real estate owned			
One-to four-family	$ 6,582	$ (676)	$ 5,906
Multifamily residential			
Nonresidential	757	(95)	662
One-to four-family residential construction	13,392	(5,359)	8,033
Land	825	(77)	748
Total real estate owned	21,556	(6,207)	15,349
Repossessed assets			
Auto	3		3
Marine	146		146
Recreational vehicle	284		284
Total repossessed assets	433		433
Total real estate owned and other repossessed assets	$ 21,989	$ (6,207)	$ 15,782

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 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 $1.1 million to $1.5 billion at March 31, 2013, compared to December 31, 2012. The primary cause for the decrease in deposits was due to the decline in certificates of deposit. As certificates of deposit matured, the Company was able to retain most of these deposits in other interest-bearing non-time deposit accounts at substantially lower rates. As of March 31, 2013, Home Savings had no brokered deposits.

Advance payments by borrowers for taxes and insurance decreased $9.3 million during the first three months of 2013. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings accounted for $2.0 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased $7.3 million.

During the first three months of 2013, Home Savings received requests for reimbursements from Freddie Mac and Fannie Mae for the purpose of making them 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 three months ended March 31, 2013, Home Savings incurred expenses of

$570,000 associated with such repurchases. Home Savings has included in other liabilities a reserve for future make-whole settlements aggregating $706,000 at March 31, 2013. Management believes this reserve is appropriate given the historical losses incurred to date and the probability future losses will be deemed certain.

Shareholders equity increased $35.8 million to $206.5 million at March 31, 2013, from $170.7 million at December 31, 2012. The change occurred primarily due to the successful completion of the private placement portion of the capital raise and net income recognized during the period, offset by the adjustment to other comprehensive income for the change in the valuation of available for sale securities during the period.

On January 11, 2013, United Community entered into securities purchase agreements with 28 accredited investors, pursuant to which the Investors agreed to invest an aggregate of approximately $39.9 million in United Community for 6,574,272 newly issued common shares of United Community at a purchase price of $2.75 per share, and 7,942 newly created and issued perpetual mandatorily convertible non-cumulative preferred shares of United Community at a purchase price of $2,750 per share. On March 22, 2013, United Community received $39.9 million from the completion of this portion of the private placement of the capital raise. Legal, investment banking and other consulting expenses incurred by United Community to complete this portion of the capital raise aggregated $4.0 million. The increase in equity from this private placement was reduced by these expenses.

Upon United Community shareholder approval, each of the preferred shares will automatically convert into 1,000 United Community common shares. However, there can be no assurance that United Community will receive such shareholder approval. The preferred shares will initially not pay any dividends, but if they are not converted into common shares prior to June 30, 2013, semi-annual non-cumulative cash dividends will take effect at an annual rate of 12.00%, payment of which is subject to regulatory approval. The preferred shares can be redeemed by United Community at any time upon prior receipt of applicable regulatory approvals.

Also on January 11, 2013, United Community entered into subscription agreements with certain of United Community s directors, officers and their affiliates pursuant to which these insider investors will invest an aggregate of approximately $2.1 million in United Community for 755,820 newly issued common shares, at the same purchase price of $2.75 per share. The issuance and sale of common shares to the insider investors, pursuant to the subscription agreements, is subject to United Community shareholder approval.

The Board considered at great lengths the merits of a capital raise and the amount to be raised, including, but not limited to: the requirements of the current regulatory orders and previous regulatory directives regarding capital levels; higher regulatory capital requirements that might apply to United Community in the near future from the implementation of proposed Basel III capital requirements; the need to maintain a capital cushion above regulatory capital minimums to absorb any potential losses that might still arise in the loan portfolio (given our asset quality metrics which, while improved, remain elevated as compared to our capital levels and compared to peer levels); and United Community s liquidity requirements and its need to act as a source of strength to Home Savings. The Board also took into account possible strategic opportunities for deploying the increased capital, and the improved likelihood of successfully doing so if capital levels were sufficient to allow United Community to pursue such strategies without financing contingencies.

On April 26, 2013, United Community issued a prospectus for the purpose of offering existing shareholders the right to purchase up to $5.0 million of United Community common shares at $2.75 per share.

Comparison of Operating Results for the Three Months Ended

March 31, 2013 and March 31, 2012

Net Income. United Community recognized net income for the three months ended March 31, 2013, of $2.7 million. Compared with the first quarter of 2012, net interest income decreased $3.0 million, the provision for loan losses increased $1.4 million, non-interest income increased $602,000 and noninterest expense decreased $2.6 million. United Community s annualized return on average assets and return on average equity were 0.59% and 6.14%, respectively, for the three months ended March 31, 2013. The annualized return on average assets and return on average equity for the comparable period in 2012 were 0.74% and 7.89%, respectively.

The BCF has no effect on net income. The BCF calculated above is deemed to be an implied dividend for purposes of determining of earnings per common share in accordance with U.S. Generally Accepted Accounting Principles, and is amortized over the period the preferred shares are expected to be outstanding. The preferred shares will convert to common shares upon shareholder approval which is being sought in the second quarter 2013. This amortization results in a reduction to retained earnings and thus net income available to common shareholders for earnings per common share purposes. Therefore, United Community will take into account the BCF discount when computing earnings per common share in 2013.

Net Interest Income. Net interest income for the three months ended March 31, 2013 and March 31, 2012, was $12.9 million and $15.9 million, respectively. Total interest income decreased $5.1 million in the first quarter of 2013 compared to the first quarter of 2012, primarily as a result of a decrease of $311.2 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 38 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.

Total interest expense decreased $2.2 million for the quarter ended March 31, 2013, as compared to the same quarter last year. The change was due primarily to reductions of $1.9 million in interest paid on deposits. The overall decrease in interest expense was attributable to a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. Between March 31, 2012, and March 31, 2013, the average outstanding balance of certificates of deposit declined by $172.7 million, while non-time deposits increased by $49.1 million. Also contributing to the decrease was a reduction of 69 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 12 basis points.

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The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the first quarter of last year. The interest rate spread for the three months ended March 31, 2013, decreased to 2.86% compared to 3.12% for the quarter ended March 31, 2012. The net interest margin decreased 29 basis points to 3.01% for the three months ended March 31, 2013 compared to 3.30% for the same quarter in 2012.

	For the Three Months Ended March 31, 2013 vs. 2012		
	Increase (decrease) due to		Total increase
	Rate	Volume	(decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans	$ (1,208)	$ (3,821)	$ (5,029)
Loans held for sale	(167)	156	(11)
Investment securities:			
Available for sale	569	(635)	(66)
FHLB stock	(17)		(17)
Other interest-earning assets		(3)	(3)
Total interest-earning assets	$ (823)	$ (4,303)	$ (5,126)
Interest-bearing liabilities:			
Savings accounts	(4)	8	4
NOW and money market accounts	(202)	27	(175)
Certificates of deposit	(1,058)	(716)	(1,774)
Federal Home Loan Bank advances	(1,048)	839	(209)
Repurchase agreements and other	(10)		(10)
Total interest-bearing liabilities	$ (2,322)	$ 158	(2,164)
Change in net interest income			$ (2,962)

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 $2.1 million in the first quarter of 2013, compared to $680,000 in the first quarter of 2012. This $1.4 million increase in the provision for loan losses is primarily a result of chargeoffs of $560,000 associated with one commercial lending relationship that was settled in the first quarter of 2013. In addition, a $382,000 specific reserve was established on another commercial relationship to adjust the net book value to an anticipated resolution balance. These two transactions caused the provision in the first quarter of 2013 to exceed the provision for loan losses for the same time period in 2012.

Noninterest Income. Noninterest income increased in the first quarter of 2013 to $5.7 million, as compared to noninterest income for the first quarter of 2012 of $5.1 million. Increased noninterest income was a result of higher gains recognized on the sale of securities available for sale, fewer losses recognized on the valuation and disposal of real estate owned and other repossessed assets and increased mortgage banking income recognized in the first quarter of 2013 as compared to the same quarter in 2012. The increase in mortgage banking income was due to an overall increase in the volume of loans originated for sale in the current quarter. In the first quarter of 2013, Home Savings sold approximately $76.9 million of loans and subsequently recognized a $1.6 million gain. Further impacting the comparison, Home Savings recognized lower losses on the disposal of real estate owned and other repossessed assets in the first quarter of 2013, as compared to the first quarter of 2012. These positive changes were offset by lower service fees and other charges recognized, compared to the first quarter of 2012. This change was a result of a lower valuation adjustment recognized on deferred mortgage servicing rights in the first quarter of 2013 as compared to the same period in 2012.

Noninterest Expense. Noninterest expense was $13.9 million in the first quarter of 2013, compared to $16.5 million in the first quarter of 2012. In the first quarter of 2013, salaries and employee benefits were down because of the recognition of expenses associated with a restricted stock grant that occurred in the first quarter of 2012. A similar award was not granted in 2013. Deposit insurance premiums were lower in the first quarter of 2013 due to the Bank being able to avail itself of more favorable insurance rates and a lower average asset base used in the calculation of insurance premiums. Professional fees were $472,000 lower during the quarter ended March 31, 2013 as compared to the same quarter last year. The improvement in asset quality has reduced the need to engage legal and other consultants to assist in the resolution of problem assets. Other expenses were lower in the first quarter of 2013, as compared to the same quarter in 2012. This positive variance is the result of lower expenses incurred for real estate taxes and other expenses paid prior to loans going into foreclosure.

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 March 31, 2013 and 2012. Average balance calculations were based on daily balances.

	Three Months Ended March 31,					
	2013			2012		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Cost
	(Dollars in thousands)					
Interest-earning assets:						
Net loans (1)	$ 1,047,661	$ 12,627	4.82%	$ 1,358,858	$ 17,656	5.20%
Net loans held for sale	12,372	89	2.88%	9,595	100	4.17%
Investment securities:						
Available for sale	602,177	3,428	2.28%	495,858	3,494	2.82%
Federal Home Loan Bank stock	26,464	283	4.28%	26,464	300	4.53%
Other interest-earning assets	27,812	9	0.13%	36,126	12	0.13%
Total interest-earning assets	1,716,486	16,436	3.83%	1,926,901	21,562	4.48%
Noninterest-earning assets	104,256			118,295		
Total assets	$ 1,820,742			$ 2,045,196		
Interest-bearing liabilities:						
NOW and money market accounts	$ 477,041	$ 292	0.24%	$ 452,345	$ 467	0.41%
Savings accounts	269,484	87	0.13%	245,130	83	0.14%
Certificates of deposit	546,521	1,708	1.25%	719,197	3,482	1.94%
Federal Home Loan Bank advances	65,567	523	3.19%	159,176	732	1.84%
Repurchase agreements and other	90,596	909	4.01%	90,616	919	4.06%
Total interest-bearing liabilities	1,449,209	3,519	0.97%	1,666,464	5,683	1.36%
Noninterest-bearing liabilities	196,760			186,233		
Total liabilities	1,645,969			1,852,697		
Equity	174,773			192,499		
Total liabilities and equity	$ 1,820,742			$ 2,045,196		
Net interest income and interest rate spread		$ 12,917	2.86%		$ 15,879	3.12%
Net interest margin			3.01%			3.30%
Average interest-earning assets to average interest-bearing liabilities			118.44%			115.63%

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

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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 this 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 to identify and manage 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 measure precisely 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 both the year ended December 31, 2012 and for the quarter ended March 31, 2013, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings as the minimum NPV ratio and the maximum change in NPV and 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.

	Year Ended March 31, 2013						
	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	9.77%	6.00%	-0.97%	30.00%	$ 9,013	-20.00%	17.87%
300	10.27%	6.00%	-0.47%	25.00%	7,286	-15.00%	14.44%
200	10.84%	7.00%	0.11%	20.00%	5,101	-10.00%	10.11%
100	11.24%	7.00%	0.50%	15.00%	2,399	-5.00%	4.76%
Static	10.74%	9.00%	%	%		%	%

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Change in rates (Basis points)	Year Ended December 31, 2012 NPV as % of portfolio value of assets NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	Next 12 months net interest income (Dollars in thousands) $ Change	Internal policy limitations	% Change
400	10.79%	6.00%	0.81%	30.00%	$ 6,080	-20.00%	11.54%
300	11.09%	6.00%	1.11%	25.00%	4,949	-15.00%	9.39%
200	11.29%	7.00%	1.31%	20.00%	3,387	-10.00%	6.43%
100	11.24%	7.00%	1.26%	15.00%	1,382	-5.00%	2.62%
Static	9.98%	9.00%	%	%		%	%

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 above 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. Also, 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 March 31, 2013. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that United Community s disclosure controls and procedures as of March 31, 2013 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 March 31, 2013, 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.

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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, 2012. 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

On January 23, 2013, Gregory Krontiris forfeited 2,008 common shares back to the Company at a price of $3.06 per share to satisfy the tax liability for the award granted on December 24, 2012. There were no other purchases of United Community shares during the quarter ended March 31, 2013.

ITEM 6 - Exhibits

Exhibit Number	Description
3.1	Articles of Incorporation
3.2	Amendment to Articles of Incorporation
3.3	Amended Code of Regulations
10.1	Form of Purchase Agreement
10.2	Form of Subscription Agreement
10.3	Executive Incentive Plan
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 March 31, 2013, formatted in XBRL (Extensible Business reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations 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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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: May 10, 2013	*/S/ Patrick W. Bevack* Patrick W. Bevack
	President and Chief Executive Officer (Principal Executive Officer)
Date: May 10, 2013	*/S/ James R. Reske* James R. Reske, CFA
	Treasurer and Chief Financial Officer (Principal Financial Officer)

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UNITED COMMUNITY FINANCIAL CORP.

Exhibit 3.1

Incorporated by reference to the Registration Statement on Form S-1 filed by United Community on March 13, 1998 with the Securities and Exchange Commission (SEC), film number 98565717, Exhibit 3.1.

Exhibit 3.2

Incorporated by reference to the form 8-A filed by United Community on June 5, 1998 with the SEC, film number 98642962, Exhibit 2(b).

Exhibit 3.3

Incorporated by reference to the 1998 Form 10-K filed by United Community on March 31, 1999 with the SEC, film number 99582343, Exhibit 3.2.

Exhibit 10.1

Incorporated by reference to the Form 8-K filed by United Community on January 15, 2013 with the SEC, film number 13531112, Exhibit 10.1.

Exhibit 10.2

Incorporated by reference to the Form 8-K filed by United Community on January 15, 2013 with the SEC, film number 13531112, Exhibit 10.2.

Exhibit 10.3

Incorporated by reference to the Form 8-K filed by United Community on March 28, 2013 with the SEC, film number 13724891, Exhibit 10.1.