

UNITED COMMUNITY FINANCIAL CORP

Form 10-Q

August 14, 2012

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

For the transition period from to

UNITED COMMUNITY FINANCIAL CORP.

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

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OHIO
(State or other jurisdiction

0-024399
(Commission

34-1856319
(IRS Employer

of incorporation)

File No.)

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. 32,890,495 common shares as of July 31, 2012.

Table of Contents

TABLE OF CONTENTS

<u>Part I. FINANCIAL INFORMATION</u>	PAGE
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Financial Condition as of June 30, 2012 (Unaudited) and December 31, 2011</u>	1
<u>Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2012 and 2011 (Unaudited)</u>	2
<u>Consolidated Statement of Shareholders' Equity for the Six Months ended June 30, 2012 and 2011 (Unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011 (Unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6 - 46
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47-60
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	61
Item 4. <u>Controls and Procedures</u>	62
<u>Part II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	63
Item 1A. <u>Risk Factors</u>	63
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	63
Item 3. Defaults Upon Senior Securities (None)	
Item 4. Mine Safety Disclosures (None)	
Item 5. <u>Other Information</u>	63
Item 6. <u>Exhibits</u>	63
<u>Signatures</u>	64
<u>Exhibits</u>	65

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

	June 30, 2012	December 31, 2011
	<i>(Dollars in thousands)</i>	
Assets:		
Cash and deposits with banks	\$ 21,516	\$ 26,573
Federal funds sold	77,006	27,563
Total cash and cash equivalents	98,522	54,136
Securities:		
Available for sale, at fair value	431,040	459,598
Loans held for sale	8,435	12,727
Loans, net of allowance for loan losses of \$30,933 and \$42,271	1,249,595	1,379,276
Federal Home Loan Bank stock, at cost	26,464	26,464
Premises and equipment, net	20,964	19,175
Accrued interest receivable	5,959	6,741
Real estate owned and other repossessed assets	24,778	33,486
Core deposit intangible	289	346
Cash surrender value of life insurance	28,375	28,354
Other assets	12,574	10,384
Total assets	\$ 1,906,995	\$ 2,030,687
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Interest bearing	\$ 1,379,477	\$ 1,440,448
Noninterest bearing	162,222	148,049
Total deposits	1,541,699	1,588,497
Borrowed funds:		
Federal Home Loan Bank advances	50,704	128,155
Repurchase agreements and other	90,608	90,618
Total borrowed funds	141,312	218,773
Advance payments by borrowers for taxes and insurance	14,680	23,282
Accrued interest payable	603	610
Accrued expenses and other liabilities	13,070	10,780
Total liabilities	1,711,364	1,841,942
Shareholders' Equity:		
Preferred stock-no par value; 1,000,000 shares authorized and unissued		
Common stock-no par value; 499,000,000 shares authorized; 37,804,457 shares issued and 32,884,741 and 32,597,762 shares, respectively, outstanding	128,138	128,031

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Retained earnings	111,719	110,681
Accumulated other comprehensive income	7,574	5,032
Treasury stock, at cost, 4,919,716 and 5,206,695 shares, respectively	(51,800)	(54,999)
Total shareholders' equity	195,631	188,745
Total liabilities and shareholders' equity	\$ 1,906,995	\$ 2,030,687

See Notes to Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
	<i>(Dollars in thousands, except per share data)</i>			
Interest income				
Loans	\$ 16,959	\$ 21,421	\$ 34,615	\$ 43,931
Loans held for sale	104	41	204	107
Available for sale securities	3,540	3,094	7,034	5,941
Federal Home Loan Bank stock dividends	280	294	580	594
Other interest earning assets	11	13	23	22
Total interest income	20,894	24,863	42,456	50,595
Interest expense				
Deposits	2,942	6,081	6,974	12,412
Federal Home Loan Bank advances	613	796	1,345	1,621
Repurchase agreements and other	919	928	1,838	1,850
Total interest expense	4,474	7,805	10,157	15,883
Net interest income	16,420	17,058	32,299	34,712
Provision for loan losses	6,264	8,244	6,944	10,436
Net interest income after provision for loan losses	10,156	8,814	25,355	24,276
Non-interest income				
Non-deposit investment income	506	308	1,047	662
Service fees and other charges	901	1,588	3,218	3,041
Net gains (losses):				
Securities available for sale	3,555	229	3,969	1,542
Other -than-temporary loss in equity securities				
Total impairment loss		(28)		(38)
Loss recognized in other comprehensive income				
Net impairment loss recognized in earnings		(28)		(38)
Mortgage banking income	1,727	3,128	3,198	3,750
Real estate owned and other repossessed assets	(923)	(1,362)	(1,652)	(2,354)
Other income	1,183	1,437	2,260	2,685
Total non-interest income	6,949	5,300	12,040	9,288
Non-interest expense				
Salaries and employee benefits	8,684	7,686	17,017	15,370
Occupancy	851	856	1,650	1,761
Equipment and data processing	1,720	1,624	3,409	3,318
Franchise tax	437	402	875	871
Advertising	211	141	352	262
Amortization of core deposit intangible	28	36	57	73

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Prepayment penalty	738		738	
Deposit insurance premiums	1,055	1,057	2,164	2,462
Professional fees	1,039	293	1,919	1,255
Real estate owned and other repossessed asset expenses	419	891	1,121	1,764
Other expenses	1,861	2,924	4,235	5,262
Total non-interest expenses	17,043	15,910	33,537	32,398
Income (loss) before income taxes	62	(1,796)	3,858	1,166
Income tax expense (benefit)				
Net income (loss)	\$ 62	\$ (1,796)	\$ 3,858	\$ 1,166

Table of Contents

(Continued)

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 62	\$ (1,796)	\$ 3,858	\$ 1,166
Other comprehensive income				
Unrealized gains on securities, net	5,425	7,474	2,542	5,701
Comprehensive income	\$ 5,487	\$ 5,678	\$ 6,400	\$ 6,867
Earnings (loss) per share				
Basic	\$	\$ (0.06)	\$ 0.12	\$ 0.04
Diluted		(0.06)	0.12	0.04

See Notes to Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(Unaudited)

	Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	<i>(Dollars thousands, except per share data)</i>					
Balance December 31, 2011	32,598	\$ 128,031	\$ 110,681	\$ 5,032	\$ (54,999)	\$ 188,745
Comprehensive income:						
Net income			3,858			3,858
Other comprehensive income				2,542		2,542
Stock based compensation	287	107	(2,820)		3,199	486
Balance June 30, 2012	32,885	\$ 128,138	\$ 111,719	\$ 7,574	\$ (51,800)	\$ 195,631
Balance December 31, 2010	30,938	\$ 142,318	\$ 111,049	\$ (4,778)	\$ (72,534)	\$ 176,055
Comprehensive income:						
Net income			1,166			1,166
Other Comprehensive income				5,701		5,701
Stock based compensation	31	195	(305)		330	220
Balance June 30, 2011	30,969	\$ 142,513	\$ 111,910	\$ 923	\$ (72,204)	\$ 183,142

See Notes to Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(Dollars in thousands)	
Cash Flows from Operating Activities		
Net income	\$ 3,858	\$ 1,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,944	10,436
Mortgage banking income	(3,198)	(3,750)
Net losses on real estate owned and other repossessed assets sold	1,652	2,354
Net gain on available for sale securities sold	(3,969)	(1,542)
Net gains on other assets sold		(10)
Other than temporary impairment of securities available for sale		38
Amortization of premiums and accretion of discounts	1,273	601
Depreciation and amortization	775	883
Decrease in interest receivable	782	519
(Decrease) increase in interest payable	(7)	29
(Increase) decrease in prepaid and other assets	(2,358)	934
Increase (decrease) in other liabilities	3,028	(16)
Stock based compensation	486	220
Net principal disbursed on loans originated for sale	(149,804)	(57,577)
Proceeds from sale of loans originated for sale	155,185	64,927
Net change in interest rate caps	1,102	
Net cash from operating activities	15,749	19,212
Cash Flows from Investing Activities		
Proceeds from principal repayments and maturities of:		
Securities available for sale	38,117	15,612
Proceeds from sale of:		
Securities available for sale	229,453	115,928
Real estate owned and other repossessed assets	9,592	7,860
Premises and equipment		10
Loans held for investment	2,109	87,533
Purchases of:		
Securities available for sale	(234,483)	(156,349)
Principal disbursed on loans, net of repayments	118,448	32,971
Loans purchased	(198)	(2,129)
Purchases of premises and equipment	(802)	(280)
Net cash from investing activities	162,236	101,156
Cash Flows from Financing Activities		
Net increase in checking, savings and money market accounts	75,985	40,655
Net decrease in certificates of deposit	(122,783)	(32,639)
Net decrease in advance payments by borrowers for taxes and insurance	(8,602)	(4,705)
Proceeds from Federal Home Loan Bank advances	295,551	206,000
Repayment of Federal Home Loan Bank advances	(373,002)	(312,453)
Prepayment penalty on Federal Home Loan Bank term advances	(738)	
Net change in repurchase agreements and other borrowed funds	(10)	1,165
Net cash from financing activities	(133,599)	(101,977)

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Change in cash and cash equivalents	44,386	18,391
Cash and cash equivalents, beginning of period	54,136	37,107
Cash and cash equivalents, end of period	\$ 98,522	\$ 55,498

See Notes to Consolidated Financial Statements

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

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

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

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

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

2. REGULATORY ENFORCEMENT ACTION

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

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

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

Table of Contents

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

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

Classified assets include classified loans, real estate owned and other repossessed assets. Refer to Note 6 for a discussion of classified loans. Refer to Note 8 for a discussion of real estate owned and other repossessed assets.

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

A failure to comply with the provisions of the Consent 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 the Home Savings and United Community.

3. RECENT ACCOUNTING DEVELOPMENTS

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

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

4. STOCK COMPENSATION

Stock Options:

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

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become exercisable on October 6, 2013. The options must be exercised within 10 years from the date of grant.

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

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

Table of Contents

Expenses related to stock option grants are included with salaries and employee benefits. The Company recognized \$4,347 in stock option expenses for the three months ended June 30, 2012. The Company recognized \$8,226 in stock option expenses for the six months ended June 30, 2012. The Company expects to recognize additional expense of \$9,007 for the remainder of 2012, \$8,436 in 2013 and \$1,406 in 2014.

A summary of activity in the plans is as follows:

	For the six months ended June 30, 2012		
	Shares	Weighted average exercise price	Aggregate intrinsic value (in thousands)
Outstanding at beginning of year	1,992,132	\$ 6.63	
Granted	7,386	1.60	
Exercised			
Forfeited	(300,290)	7.16	
Outstanding at end of period	1,699,228	\$ 6.51	\$ 737
Options exercisable at end of period	1,664,637	\$ 6.62	\$ 683

Information related to the stock option plans for the six months ended June 30, 2012 follows:

	June 30, 2012
Intrinsic value of options exercised	n/a
Cash received from option exercises	n/a
Tax benefit realized from option exercises	n/a
Weighted average fair value of options granted, per share	\$ 1.02

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 second quarter 2012 was determined using the following weighted-average assumptions as of the grant date.

	April 5, 2012
Risk-free interest rate	0.93%
Expected term (years)	5
Expected stock volatility	63.2%
Dividend yield	%

Outstanding stock options have a weighted average remaining life of 4.35 years and may be exercised in the range of \$1.20 to \$12.38.

Restricted Stock Awards:

The 2007 Plan permits the issuance of awards to nonemployee directors. Compensation expense is recognized over the vesting period of the awards based on the market value of the shares at the grant date. A total of 389,626 restricted shares have been issued under the 2007 Plan; 286,979 of which were issued in 2012, 62,768 of which were issued in 2011 and 39,879 of which were issued in 2010. The grants in 2012 include 141,600 shares that vested immediately. The remaining 141,600 shares granted in 2012 vest equally over the three quarters ending June 30, 2012, September 30, 2012 and December 31, 2012. Restricted shares aggregating 21,847 issued in 2012 and those shares issued in 2011

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and 2010 either have or will vest on the first anniversary of the grant date. Expenses related to restricted stock awards are included with salaries and employee benefits. The cost will be recognized over an average period of one year. The Company recognized approximately \$124,000 in restricted stock award expenses for the three months ended June 30, 2012. The Company recognized approximately \$500,000 in restricted stock award expenses for the six months ended June 30, 2012. The Company expects to recognize additional expenses of approximately \$183,000 for the remainder of 2012, \$239,000 in 2013 and \$152,000 in 2014.

Table of Contents

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

	Shares	Weighted average grant date fair value
Nonvested shares at January 1, 2012	59,019	\$ 1.30
Granted	286,979	1.32
Vested	(227,695)	1.30
Nonvested shares at June 30, 2012	118,303	\$ 1.34

5. SECURITIES

Components of the available for sale portfolio are as follows:

	Amortized cost	June 30, 2012 Gross unrealized gains (Dollars in thousands)	Gross unrealized losses	Fair value
Available for Sale				
U.S. Treasury and government sponsored entities securities	\$ 53,140	\$ 983	\$	\$ 54,123
Equity securities	113	163		276
Mortgage-backed GSE securities: residential	369,707	6,934		376,641
Total	\$ 422,960	\$ 8,080	\$	\$ 431,040

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

Table of Contents

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

	June 30, 2012	
	Amortized cost	Fair value
	<i>(Dollars in thousands)</i>	
Due in one year or less	\$	\$
Due after one year through five years		
Due after five years through ten years	53,140	54,123
Mortgage-backed GSE securities: residential	369,707	376,641
Total	\$ 422,847	\$ 430,764

Securities pledged to collateralize the processing of Visa transactions were approximately \$5.8 million at June 30, 2012 and \$5.7 million at December 31, 2011. Securities pledged for participation in the Ohio Linked Deposit Program were approximately \$412,000 and \$418,000 at June 30, 2012 and December 31, 2011, respectively. Securities sold under an agreement to repurchase are secured primarily by mortgage-backed securities with a fair value of approximately \$126.4 million at June 30, 2012, and \$115.4 million at December 31, 2011.

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

Proceeds from sales of securities available for sale were \$199.3 million and \$52.7 million for the three months ended June 30, 2012 and 2011, respectively. Gross gains of \$3.6 million and \$29,000 were realized on these sales during the second quarter of 2012 and 2011, respectively.

Proceeds from sales of securities available for sale were \$229.5 million and \$115.9 million for the six months ended June 30, 2012 and 2011, respectively. Gross gains of \$4.0 million and \$1.5 million losses were realized on these sales during the first six months of 2012 and 2011, respectively.

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

The Company recognized a \$38,000 OTTI charge on equity investments in two other financial institutions in the first six months of 2011. One financial institution consented to a regulatory enforcement action, diminishing the chance of fair value recovery in the foreseeable future. The other investment was trading below book value and management was not able to determine with reasonable certainty that recovery would occur in the near-term.

Table of Contents**6. LOANS**

Portfolio loans consist of the following:

	June 30, 2012	December 31, 2011
<i>(Dollars in thousands)</i>		
Real Estate:		
One-to four-family residential	\$ 635,756	\$ 667,375
Multi-family residential	98,545	120,991
Nonresidential	229,303	276,198
Land	19,113	23,222
Construction:		
One-to four-family residential and land development	42,077	59,339
Multi-family and nonresidential	4,528	4,528
Total real estate	1,029,322	1,151,653
Consumer		
Home equity	183,936	191,827
Auto	7,908	8,933
Marine	5,486	5,900
Recreational vehicles	25,019	28,530
Other	2,718	3,207
Total consumer	225,067	238,397
Commercial		
Secured	21,784	25,120
Unsecured	3,015	5,026
Total commercial	24,799	30,146
Total loans	1,279,188	1,420,196
Less:		
Allowance for loan losses	30,933	42,271
Deferred loan costs, net	(1,340)	(1,351)
Total	29,593	40,920
Loans, net	\$ 1,249,595	\$ 1,379,276

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

Table of Contents

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 June 30, 2012 and December 31, 2011 and activity for the three and six months ended June 30, 2012 and 2011.

Allowance For Loan Losses (Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
For the three months ended June 30, 2012						
Beginning balance (03/31/12)	\$ 24,601	\$ 2,918	\$ 4,962	\$ 2,042	\$	\$ 34,523
Provision	6,171	92	3	(2)		6,264
Chargeoffs	(8,705)	(526)	(499)	(550)		(10,280)
Recoveries	54	6	339	27		426
Net chargeoffs	(8,651)	(520)	(160)	(523)		(9,854)
Ending balance (06/30/12)	\$ 22,121	\$ 2,490	\$ 4,805	\$ 1,517	\$	\$ 30,933
For the six months ended June 30, 2012						
Beginning balance (12/31/11)	\$ 31,323	\$ 4,493	\$ 4,576	\$ 1,879	\$	\$ 42,271
Provision	4,634	615	1,134	561		6,944
Chargeoffs	(14,061)	(2,670)	(1,359)	(974)		(19,064)
Recoveries	225	52	454	51		782
Net chargeoffs	(13,836)	(2,618)	(905)	(923)		(18,282)
Ending balance (06/30/12)	\$ 22,121	\$ 2,490	\$ 4,805	\$ 1,517	\$	\$ 30,933
Period-end amount allocated to:						
Loans individually evaluated for impairment	\$ 5,328	\$ 1,498	\$ 18	\$ 185	\$	\$ 7,029
Loans collectively evaluated for impairment	16,793	992	4,787	1,332		23,904
Ending balance	\$ 22,121	\$ 2,490	\$ 4,805	\$ 1,517	\$	\$ 30,933
Period-end balances:						
Loans individually evaluated for impairment	\$ 100,193	\$ 20,158	\$ 6,067	\$ 2,289	\$	\$ 128,707
Loans collectively evaluated for impairment	882,525	26,446	219,000	22,510		1,150,481
Ending balance	\$ 982,718	\$ 46,604	\$ 225,067	\$ 24,799	\$	\$ 1,279,188

Table of Contents

Allowance For Loan Losses
(Dollars in thousands)

	Permanent Real Estate Loans	Construction Loans	Consumer Loans	Commercial Loans	Unallocated	Total
For the three months ended June 30, 2011						
Beginning balance (03/31/11)	\$ 26,991	\$ 5,774	\$ 4,996	\$ 8,654	\$	\$ 46,415
Provision	8,438	2,015	190	(2,399)		8,244
Chargeoffs	(4,295)	(1,405)	(767)	(2,563)		(9,030)
Recoveries	237	145	125	87		594
Net chargeoffs	(4,058)	(1,260)	(642)	(2,476)		(8,436)
Ending balance (06/30/11)	\$ 31,371	\$ 6,529	\$ 4,544	\$ 3,779	\$	\$ 46,223
For the six months ended June 30, 2011						
Beginning balance (12/31/10)	\$ 28,066	\$ 8,533	\$ 5,260	\$ 9,024	\$	\$ 50,883
Provision	9,992	1,551	782	(1,889)		10,436
Chargeoffs	(7,173)	(3,757)	(1,797)	(3,529)		(16,256)
Recoveries	486	202	299	173		1,160
Net chargeoffs	(6,687)	(3,555)	(1,498)	(3,356)		(15,096)
Ending balance (06/30/11)	\$ 31,371	\$ 6,529	\$ 4,544	\$ 3,779	\$	\$ 46,223
December 31, 2011						
Period-end amount allocated to:						
Loans individually evaluated for impairment	\$ 8,275	\$ 3,102	\$ 236	\$ 210	\$	\$ 11,823
Loans collectively evaluated for impairment	23,048	1,391	4,340	1,669		30,448
Ending balance	\$ 31,323	\$ 4,493	\$ 4,576	\$ 1,879	\$	\$ 42,271
Period-end balances:						
Loans individually evaluated for impairment	\$ 115,290	\$ 30,587	\$ 3,734	\$ 3,956	\$	\$ 153,567
Loans collectively evaluated for impairment	972,496	33,280	234,663	26,190		1,266,629
Ending balance	\$ 1,087,786	\$ 63,867	\$ 238,397	\$ 30,146	\$	\$ 1,420,196

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

Table of Contents

The following table presents loans individually evaluated for impairment by class of loans as of and for the six months ended June 30, 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	\$ 33,074	\$ 29,040	\$	\$ 27,751	\$ 311	\$ 426
Multifamily residential	7,190	4,861		4,317	19	97
Nonresidential	26,409	24,740		27,257	69	201
Land	7,091	5,796		6,308	16	52
Total	73,764	64,437		65,633	415	776
Construction loans						
One-to four-family residential	14,116	7,760		10,267	53	137
Multifamily and nonresidential	707					
Total	14,823	7,760		10,267	53	137
Consumer loans						
Home Equity	6,122	4,953		3,388	90	109
Auto	78	58		60	1	3
Marine	368	354		178		9
Recreational vehicle	940	659		367		21
Other	7	7		7		
Total	7,515	6,031		4,000	91	142
Commercial loans						
Secured	2,317	1,497		1,747	12	69
Unsecured	16,704	207		452	1	13
Total	19,021	1,704		2,199	13	82
Total	\$ 115,123	\$ 79,932	\$	\$ 82,099	\$ 572	\$ 1,137

Table of Contents

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	\$ 3,969	\$ 3,604	\$ 648	\$ 2,608	\$ 49	\$ 61
Multifamily residential	5,572	5,193	731	3,201	41	76
Nonresidential	27,410	23,820	3,469	34,570	132	650
Land	5,332	3,139	480	4,129		
Total	42,283	35,756	5,328	44,508	222	787
Construction loans						
One-to four-family residential	29,580	12,398	1,498	17,140	10	29
Multifamily and nonresidential						
Total	29,580	12,398	1,498	17,140	10	29
Consumer loans						
Home Equity						
Auto						
Marine				121		
Recreational vehicle	88	36	18	27		
Other						
Total	88	36	18	148		
Commercial loans						
Secured	943	585	185	2,161		3
Unsecured				119		
Total	943	585	185	2,280		3
Total	\$ 72,894	\$ 48,775	\$ 7,029	\$ 64,076	\$ 232	\$ 819
Total	\$ 188,017	\$ 128,707	\$ 7,029	\$ 146,175	\$ 804	\$ 1,956

Table of Contents

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

Impaired Loans (Dollars in thousands)			
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 28,780	\$ 221	\$ 266
Multifamily residential	4,367	50	85
Nonresidential	26,959	(75)	(45)
Land	6,028	8	36
Total	66,134	204	342
Construction loans			
One-to four-family residential	9,036	10	55
Multifamily and nonresidential			
Total	9,036	10	55
Consumer loans			
Home Equity	4,683	51	58
Auto	56	1	2
Marine	356		4
Recreational vehicle	704		11
Other	7		
Total	5,806	52	75
Commercial loans			
Secured	1,665	5	27
Unsecured	482	(5)	
Total	2,147		27
Total	\$ 83,123	\$ 266	\$ 499

Table of Contents

Impaired Loans (Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 2,117	\$	\$ 5
Multifamily residential	3,784		2
Nonresidential	28,931	(22)	319
Land	2,957		
Total	37,789	(22)	346
Construction loans			
One-to four-family residential	13,325	5	12
Multifamily and nonresidential			
Total	13,325	5	12
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle	36		
Other			
Total	36		
Commercial loans			
Secured	551	(1)	1
Unsecured			
Total	551	(1)	1
Total	\$ 51,701	\$ (18)	\$ 359
Total	\$ 134,824	\$ 248	\$ 858

Table of Contents

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

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

Table of Contents

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

Table of Contents

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

	<u>Impaired Loans</u> (Dollars in thousands)		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 25,373	\$ 91	\$ 152
Multifamily residential	2,889		64
Nonresidential	20,730	132	215
Land	6,087	23	58
Total	55,079	246	489
Construction loans			
One-to four-family residential	20,666	76	93
Multifamily and nonresidential	319		
Total	20,986	76	93
Consumer loans			
Home Equity	1,294	1	6
Auto	64		1
Marine			
Recreational vehicle	47		
Other	7		
Total	1,412	1	7
Commercial loans			
Secured	1,543	6	6
Unsecured	386	5	17
Total	1,929	11	23
Total	\$ 79,406	\$ 334	\$ 612

Table of Contents

(Continued)

Impaired Loans

(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 1,641	\$ 39	\$ 49
Multifamily residential	6,725		17
Nonresidential	40,067	205	290
Land	522	12	15
Total	48,955	256	371
Construction loans			
One-to four-family residential	26,050	1	157
Multifamily and nonresidential			
Total	26,050	1	157
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	5,438	(109)	45
Unsecured	3,106		12
Total	8,544	(109)	57
Total	\$ 83,549	\$ 148	\$ 585
Total	\$ 162,955	\$ 482	\$ 1,197

Table of Contents

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

<u>Impaired Loans</u> (Dollars in thousands)			
	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 25,043	\$ 212	\$ 327
Multifamily residential	3,144		107
Nonresidential	21,536	225	459
Land	6,363	34	80
Total	56,086	471	973
Construction loans			
One-to four-family residential	20,430	103	180
Multifamily and nonresidential	255		
Total	20,685	103	180
Consumer loans			
Home Equity	1,243	3	15
Auto	66		3
Marine			
Recreational vehicle	47		1
Other	7		
Total	1,363	3	19
Commercial loans			
Secured	1,502	13	14
Unsecured	385	5	27
Total	1,887	18	41
Total	\$ 80,021	\$ 595	\$ 1,213

Table of Contents

(Continued)

Impaired Loans

(Dollars in thousands)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With a specific allowance recorded			
Permanent real estate			
One-to four-family residential	\$ 2,253	\$ 39	\$ 58
Multifamily residential	5,951		27
Nonresidential	39,438	469	657
Land	618	12	19
Total	48,260	520	761
Construction loans			
One-to four-family residential	26,011	60	251
Multifamily and nonresidential			
Total	26,011	60	251
Consumer loans			
Home Equity			
Auto			
Marine			
Recreational vehicle			
Other			
Total			
Commercial loans			
Secured	5,824	9	163
Unsecured	2,752		24
Total	8,576	9	187
Total	\$ 82,847	\$ 589	\$ 1,199
Total	\$ 162,868	\$ 1,184	\$ 2,412

Table of Contents

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

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

	Nonaccrual	Loans past due over 90 days and still accruing
Real Estate Loans		
Permanent		
One-to four-family residential	\$ 26,705	\$
Multifamily residential	9,582	
Nonresidential	43,103	
Land	8,316	
Total	87,706	
Construction Loans		
One-to four-family residential	18,335	
Multifamily and nonresidential		
Total	18,335	
Consumer Loans		
Home Equity	4,897	47
Auto	101	
Marine	342	
Recreational vehicle	1,293	
Other	22	
Total	6,655	47
Commercial Loans		
Secured	1,350	
Unsecured	436	
Total	1,786	
Total	\$ 114,482	\$ 47

Table of Contents

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

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

Table of Contents

The following tables present an age analysis of past-due loans, segregated by class of loans as of June 30, 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	\$ 2,187	\$ 947	\$ 21,131	\$ 24,265	\$ 611,491	\$ 635,756
Multifamily residential	228	95	9,018	9,341	89,204	98,545
Nonresidential	417	4,685	36,155	41,257	188,046	229,303
Land	63	11	8,316	8,390	10,723	19,113
Total	2,895	5,738	74,620	83,253	899,464	982,717
Construction Loans						
One-to four-family residential		76	17,609	17,685	24,392	42,077
Multifamily and nonresidential					4,528	4,528
Total		76	17,609	17,685	28,920	46,605
Consumer Loans						
Home Equity	1,048	453	4,006	5,507	178,429	183,936
Auto	37	16	54	107	7,801	7,908
Marine		173	169	342	5,144	5,486
Recreational vehicle	978	700	582	2,260	22,759	25,019
Other	155	1	20	176	2,542	2,718
Total	2,218	1,343	4,831	8,392	216,675	225,067
Commercial Loans						
Secured	111		208	319	21,465	21,784
Unsecured			136	136	2,879	3,015
Total	111		344	455	24,344	24,799
Total	\$ 5,224	\$ 7,157	\$ 97,404	\$ 109,785	\$ 1,169,403	\$ 1,279,188

During the second quarter of 2012, one loan relationship consisting of seven loans totaling \$8.4 million became past due as the borrower went into bankruptcy proceedings.

Table of Contents

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

Past Due Loans
(Dollars in thousands)

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

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

Restructured loans were \$32.8 million and \$50.9 million at June 30, 2012 and December 31, 2011, respectively. The Company has allocated \$1.0 million of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of June 30, 2012. The Company had allocated \$2.0 million of specific reserves to customers whose loan terms were modified in troubled debt restructurings as of December 31, 2011. Troubled debt restructurings are considered impaired and are included in the table above.

Table of Contents

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

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post- Modification Recorded Investment
Real Estate Loans			
Permanent			
One-to four-family	7	\$ 350	\$ 345
Multifamily residential			
Nonresidential			
Land			
Total	7	350	345
Construction Loans			
One-to four-family residential			
Multifamily and nonresidential			
Total			
Consumer Loans			
Home Equity	20	950	918
Auto			
Marine			
Recreational vehicle			
Other			
Total	20	950	918
Commercial Loans			
Secured			
Unsecured			
Total			
Total Restructured Loans	27	\$ 1,300	\$ 1,263

The troubled debt restructurings described above had no effect on the allowance for loan losses and resulted in no chargeoffs during the three months ending June 30, 2012.

Table of Contents

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

	Number of loans	Pre-Modification Outstanding Recorded Investment	Post- Modification Recorded Investment
Real Estate Loans			
Permanent			
One-to four-family	21	\$ 2,306	\$ 2,264
Multifamily residential	6	1,439	1,438
Nonresidential	1	424	424
Land			
Total	28	4,169	4,126
Construction Loans			
One-to four-family residential	3	853	830
Multifamily and nonresidential			
Total	3	853	830
Consumer Loans			
Home Equity	42	1,783	1,752
Auto			
Marine			
Recreational vehicle			
Other			
Total	42	1,783	1,752
Commercial Loans			
Secured			
Unsecured	1	446	446
Total	1	446	446
Total Restructured Loans	74	\$ 7,251	\$ 7,154

The troubled debt restructurings described above increased the allowance for loan losses by \$78,000 and resulted in no chargeoffs during the six months ending June 30, 2012.

Table of Contents

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

	Number of loans	Recorded Investment
Real Estate Loans		
Permanent		
One-to four-family	14	\$ 1,570
Multifamily residential		
Nonresidential	3	1,219
Land	2	1,495
Total	19	4,284
Construction Loans		
One-to four-family residential	4	371
Multifamily and nonresidential		
Total	4	371
Consumer Loans		
Home Equity	5	197
Auto		
Marine		
Recreational vehicle		
Other		
Total	5	197
Commercial Loans		
Secured		
Unsecured		
Total		
Total Restructured Loans	28	\$ 4,852

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 chargeoffs of \$29,000 and \$505,000 during the three and six months ended June 30, 2012, respectively, but had no effect on the provision for loan losses.

The terms of certain other loans were modified during the period ended June 30, 2012 but the modifications did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of June 30, 2012 of \$7.9 million. The modification of these loans involved either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be significant.

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

Credit Quality Indicators:

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

Loans

June 30, 2012

(Dollars in thousands)

	Unclassified		Classified			Total	
	Unclassified	Special Mention	Substandard	Doubtful	Loss	Classified	Total Loans
Real Estate Loans							
Permanent							
One-to four-family residential	\$ 598,449	\$ 1,865	\$ 35,442	\$	\$	\$ 35,442	\$ 635,756
Multifamily Residential	71,022	10,367	17,156			17,156	98,545
Nonresidential	126,419	21,797	81,087			81,087	229,303
Land	9,792	882	8,439			8,439	19,113
Total	805,682	34,911	142,124			142,124	982,717
Construction Loans							
One-to four-family Residential	21,891	1,654	18,507	25		18,532	42,077
Multifamily and nonresidential	4,528						4,528
Total	26,419	1,654	18,507	25		18,532	46,605
Consumer Loans							
Home Equity	178,667		5,269			5,269	183,936
Auto	7,563	228	117			117	7,908
Marine	5,122	10	354			354	5,486
Recreational vehicle	23,604		1,415			1,415	25,019
Other	2,688		30			30	2,718
Total	217,644	238	7,185			7,185	225,067
Commercial Loans							
Secured	18,283	413	3,088			3,088	21,784
Unsecured	1,855	250	910			910	3,015
Total	20,138	663	3,998			3,998	24,799
Total	\$ 1,069,883	\$ 37,466	\$ 171,814	\$ 25	\$	\$ 171,839	\$ 1,279,188

Table of Contents

Loans

December 31, 2011

(Dollars in thousands)

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

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

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

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	<i>(Dollars in thousands)</i>	
Balance, beginning of year	\$ 6,375	\$ 6,400
Originations	1,167	1,036
Amortized to expense	(1,282)	(1,002)
Balance, end of period	6,260	6,434
Less valuation allowance	(1,344)	(58)
Net balance	\$ 4,916	\$ 6,376

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	<i>(Dollars in thousands)</i>	
Balance, beginning of year	\$ (1,785)	\$ (285)
Impairment charges	(507)	
Recoveries	948	227
Balance, end of period	\$ (1,344)	\$ (58)

Fair value of mortgage servicing rights as of June 30, 2012 was approximately \$6.2 million and at December 31, 2011 was approximately \$5.9 million.

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

	June 30, 2012	December 31, 2011
Weighted average prepayment rate	444 PSA	475 PSA
Weighted average life (in years)	3.82	3.70
Weighted average discount rate	8%	8%

Table of Contents

8. OTHER REAL ESTATE OWNED AND OTHER REPOSSESSED ASSETS

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

	June 30, 2012	June 30, 2011
	<i>(Dollars in thousands)</i>	
Real estate owned and other repossessed assets	\$ 30,794	\$ 51,161
Valuation allowance	(6,016)	(7,476)
End of period	\$ 24,778	\$ 43,685

Activity in the valuation allowance was as follows:

	June 30, 2012	June 30, 2011
	<i>(Dollars in thousands)</i>	
Beginning of year	\$ 8,764	\$ 7,332
Additions charged to expense	633	1,808
Direct write-downs	(3,381)	(1,664)
End of period	\$ 6,016	\$ 7,476

Expenses related to foreclosed and repossessed assets include:

	For the three months ended June 30, 2012	2011
	<i>(Dollars in thousands)</i>	
Net loss on sales	\$ 418	\$ 136
Provision for unrealized losses, net	505	1,226
Operating expenses, net of rental income	419	891
Total expenses	\$ 1,342	\$ 2,253

	For the six months ended June 30, 2012	2011
	<i>(Dollars in thousands)</i>	
Net loss on sales	\$ 1,019	\$ 546
Provision for unrealized losses, net	633	1,808
Operating expenses, net of rental income	1,121	1,764
Total expenses	\$ 2,773	\$ 4,118

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

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

Components of net periodic benefit cost are as follows:

	Three Months Ended June 30, 2012	2011
	(In thousands)	
Service cost	\$	\$
Interest cost	19	33
Expected return on plan assets		
Net amortization (accretion) of prior service cost	(20)	
Recognized net actuarial gain	(23)	(19)
Net periodic benefit cost	\$ (24)	\$ 14
Assumptions used in the valuations were as follows:		
Weighted average discount rate	4.00%	5.00%
	Six Months Ended June 30, 2012	2011
	(Dollars in thousands)	
Service cost	\$	\$
Interest cost	38	66
Expected return on plan assets		
Net amortization of prior service cost	(40)	
Recognized net actuarial gain	(46)	(38)
Net periodic benefit cost	\$ (48)	\$ 28
Assumptions used in the valuations were as follows:		
Weighted average discount rate	4.00%	5.00%

10. FAIR VALUE MEASUREMENT

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

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

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

Table of Contents

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

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

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

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

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

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

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

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

Table of Contents

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

		Fair Value Measurements at June 30, 2012 Using:			
		Quoted			
		Prices in			
		Active Markets for		Significant	
		Identical		Other	
		Assets		Observable	
		(Level 1)		Inputs	
		1)		(Level 2)	
				Significant Unobservable Inputs	
		June 30, 2012		(Level 3)	
		(Dollars in thousands)			
Assets:					
Available for sale securities					
US Treasury and government sponsored entities securities	\$ 54,123	\$	\$ 54,123	\$	
Equity securities	276	276			
Mortgage-backed GSE securities: residential	376,641		376,641		
Interest rate caps	831				831

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

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

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

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	Interest Rate Caps	
	Three Months Ended	Six Months Ended
	June 30, 2012	June 30, 2012
Balance of recurring Level 3 assets at January 1	\$ 1,646	\$ 1,933
Total gains (losses) for the period		
Included in other income	(686)	(843)
Included in other comprehensive income		
Purchases		
Amortization	(129)	(259)
Sales		
Balance of recurring Level 3 assets at end of period	\$ 831	\$ 831

Table of Contents

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

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

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

	Fair Value	Valuation Technique(s) Discounted	Unobservable	
			Input(s)	Range
Interest rate caps	\$ 831	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 June 30, 2012				
Using:				
June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Impaired loans:				
Permanent real estate loans	\$ 30,429	\$	\$	\$ 30,429
Construction loans	10,900			10,900
Consumer loans	17			17
Commercial loans	400			400
Mortgage servicing assets	4,358	4,358		
Other real estate owned, net:				
Permanent real estate loans	4,753			4,753
Construction loans	5,877			5,877

Fair Value Measurements at December 31, 2011				
Using:				
December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1) (Dollars in thousands)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Impaired loans:				

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Permanent real estate loans	\$ 38,627	\$	\$	\$ 38,627
Construction loans	14,953			14,953
Consumer loans	282			282
Commercial loans	291			291
Mortgage servicing assets	3,921		3,921	
Other real estate owned, net:				
Permanent real estate loans	7,586			7,586
Construction loans	7,581			7,581

Table of Contents

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 \$48.8 million at June 30, 2012, with a specific valuation allowance of \$7.0 million. This resulted in an increase of the provision for loan losses of \$2.1 million during the three months ended June 30, 2012 and an increase of the provision for loan losses of \$1.5 million during the six months ended June 30, 2012. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$80.0 million at June 30, 2011, with a specific valuation allowance of \$11.7 million. This resulted in an additional provision for loan losses of \$7.0 million during the three months ended June 30, 2011 and \$12.6 million for the six months ended June 30, 2011. Impaired loans with specific allocations of the allowance for loan losses, carried at fair value, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$66.0 million at December 31, 2011, with a specific valuation allowance of \$11.8 million, resulting in additional provision for loan losses of \$30.8 million during 2011.

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

At June 30, 2012, mortgage servicing rights, carried at fair value, totaled \$4.9 million, which is made up of the outstanding balance of \$6.3 million, net of a valuation allowance of \$1.3 million. At December 31, 2011, mortgage servicing rights, carried at fair value, totaled \$4.6 million, which was made up of the outstanding balance of \$6.4 million, net of a valuation allowance of \$1.8 million, resulting in a net charge of \$1.5 million for the year ended December 31, 2011. During the second quarter, the Company increased the amount of the valuation allowance by \$507,000. Mortgage servicing rights are valued by an independent third party that is active in purchasing and selling these instruments. The value reflects the characteristics of the underlying loans discounted at a market multiple.

At June 30, 2012, other real estate owned, carried at fair value, which is measured for impairment using the fair value of the property less estimated selling costs, had a net carrying amount of \$24.8 million, with a valuation allowance of \$6.0 million. This resulted in additional expenses of \$633,000 during the three months ended June 30, 2012, and additional expenses of \$1.8 million during the six months ended June 30, 2012. At December 31, 2011, other real estate owned, measured at fair value less costs to sell, had a net carrying amount of \$33.5 million, which is made up of the outstanding balance of \$42.3 million net of a valuation allowance of \$8.8 million resulting in a write-down of \$4.8 million for the year ended December 31, 2011.

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

	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Average)
Impaired loans:				
Permanent real estate loans	\$ 30,429	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	10,900	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%
Consumer loans	17	Sales comparison approach	Adjustment for differences between comparable sales	20.00%
Commercial loans	400	Sales comparison approach	Adjustment for differences between comparable sales	1.6%-24.18% (11.15%)
		Income approach		8.5%-10%

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Adjustment for differences in net operating income Capitalization rate (9.25%)

Foreclosed assets:				
Permanent real estate loans	4,753	Sales comparison approach	Adjustment for differences between comparable sales	3.60%-16.47%
				(10.20%)
Construction loans	5,877	Sales comparison approach	Adjustment for differences between comparable sales	0.00%-47.24%
				(17.63%)

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

		Fair Value Measurements at June 30, 2012 Using:		
	June 30, 2012 Carrying Value	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:				
Cash and cash equivalents	\$ 98,522	\$ 98,522	\$	\$
Available for sale securities	431,040	276	430,764	
Loans held for sale	8,435		8,709	
Loans, net	1,249,595			1,271,569
FHLB stock	26,464	n/a	n/a	n/a
Accrued interest receivable	5,959		451	5,508
Interest rate caps	831			831
Liabilities:				
Deposits:				
Checking, savings and money market accounts	(893,067)	(893,067)		
Certificates of deposit	(648,632)		(659,939)	
FHLB advances	(50,704)		(58,234)	
Repurchase agreements and other	(90,608)		(102,384)	
Advance payments by borrowers for taxes and insurance	(14,680)		(14,680)	
Accrued interest payable	(603)	(580)	(23)	

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

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

(a) Cash and Cash Equivalents

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

(b) FHLB Stock

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

(c) Loans

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

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

(d) Deposits

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

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

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

(f) Other Borrowings

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

(g) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 classification.

(h) Off-balance Sheet Instruments

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

11. STATEMENT OF CASH FLOWS SUPPLEMENTAL DISCLOSURE

Supplemental disclosures of cash flow information are summarized below.

	For the six months ended	
	June 30, 2012	June 30, 2011
	<i>(Dollars in thousands)</i>	
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest on deposits and borrowings	\$ 10,164	\$ 15,854
Supplemental schedule of noncash activities:		
Loans transferred from portfolio to held for sale	1,214	86,584
Transfers from loans to real estate owned and other repossessed assets	4,282	13,562
Transfers from real estate owned to premises and equipment	1,746	

12. SEGMENT INFORMATION

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

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

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

	Three months ended June 30,	
	2012	2011
Net income (loss) per consolidated statements of income	\$ 62	\$ (1,796)
Net earnings allocated to participating securities		3
Net earnings (loss) allocated to common stock	\$ 62	\$ (1,793)
Basic earnings (loss) per common share computation:		
Distributed earnings allocated to common stock	\$	\$
Undistributed earnings (loss) allocated to common stock	62	(1,793)
Net earnings (loss) allocated to common stock	\$ 62	\$ (1,793)
Weighted average common shares outstanding, including shares considered participating securities	32,942	30,932
Less: Average participating securities	(140)	(57)
Weighted average shares	32,802	32,875
Basic earnings (loss) per common share	\$	\$ (0.06)
Diluted earnings (loss) per common share computation:		
Net earnings (loss) allocated to common stock	\$ 62	\$ (1,793)
Weighted average common shares outstanding for basic earnings per common share	32,802	32,875
Add: Dilutive effects of assumed exercises of stock options	41	
Weighted average shares and dilutive potential common shares	32,843	32,875
Diluted earnings (loss) per common share	\$	\$ (0.06)

Table of Contents

	Six months ended June 30,	
	2012	2011
Net income per consolidated statements of income	\$ 3,858	\$ 1,166
Net earnings allocated to participating securities	(10)	(2)
Net earnings allocated to common stock	\$ 3,848	\$ 1,164
Basic earnings per common share computation:		
Distributed earnings allocated to common stock	\$ 3,848	\$ 1,164
Undistributed earnings allocated to common stock	3,848	1,164
Net earnings allocated to common stock	\$ 3,848	\$ 1,164
Weighted average common shares outstanding, including shares considered participating securities	32,749	30,925
Less: Average participating securities	(89)	(51)
Weighted average shares	32,660	30,874
Basic earnings per common share	\$ 0.12	\$ 0.04
Diluted earnings per common share computation:		
Net earnings allocated to common stock	\$ 3,848	\$ 1,164
Weighted average common shares outstanding for basic earnings per common share	32,660	30,874
Add: Dilutive effects of assumed exercises of stock options	13	1
Weighted average shares and dilutive potential common shares	32,673	30,875
Diluted earnings per common share	\$ 0.12	\$ 0.04

Table of Contents

14. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) included in the Consolidated Statements of Shareholders Equity consists of unrealized gains and losses on available for sale securities and reflects no change in unrealized gains and losses on postretirement liability. The change includes reclassification of gains on sales of securities of \$4.0 million and no impairment charges at June 30, 2012, and gains on sales of securities of \$1.5 million and impairment charges of \$38,000 at June 30, 2011.

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

	Three months ended	
	June 30, 2012	June 30, 2011
	(Dollars in thousands)	
Unrealized holding gain on securities available for sale	\$ 8,980	\$ 7,675
Reclassification adjustment for gains realized in income	(3,555)	(201)
Net unrealized gains	5,425	7,474
Tax effect (35%)		
Net of tax amount	\$ 5,425	\$ 7,474

	Six months ended	
	June 30, 2012	June 30, 2011
	(Dollars in thousands)	
Unrealized holding gain on securities available for sale	\$ 6,511	\$ 7,205
Reclassification adjustment for gains realized in income	(3,969)	(1,504)
Net unrealized gains	2,542	5,701
Tax effect (35%)		
Net of tax amount	\$ 2,542	\$ 5,701

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

	Balance at December 31, 2011	Current Period Change	Balance at June 30, 2012
Unrealized gains on securities available for sale	\$ 3,447	\$ 2,542	\$ 5,989
Unrealized gains on post-retirement benefits	1,585		1,585
Total	\$ 5,032	\$ 2,542	\$ 7,574

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

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

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

As of June 30, 2012				
	Actual		Minimum Capital Requirements Per Consent Order	
	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>				
Total risk-based capital to risk-weighted assets	\$ 199,534	16.43%	\$ 145,773	12.00%
Tier 1 capital to risk-weighted assets	184,155	15.16%	*	*
Tier 1 capital to average total assets	184,155	9.32%	177,763	9.00%

As of June 30, 2012				
	Minimum Capital Requirements Per Regulation		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio
<i>(Dollars in thousands)</i>				
Total risk-based capital to risk-weighted assets	\$ 97,182	8.00%	\$ 121,477	10.00%
Tier 1 capital to risk-weighted assets	*	*	72,886	6.00%
Tier 1 capital to average total assets	79,006	4.00%	98,757	5.00%

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

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

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

Table of Contents

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

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

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

16. INCOME TAXES

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

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

	At or For the Three Months Ended June 30,		At or For the Six Months Ended June 30,	
	2012	2011	2012	2011
Selected financial ratios and other data: (1)				
Performance ratios:				
Return on average assets (2)	0.01%	-0.34%	0.38%	0.11%
Return on average equity (3)	0.12%	-3.95%	3.95%	1.29%
Interest rate spread (4)	3.38%	3.19%	3.24%	3.25%
Net interest margin (5)	3.55%	3.39%	3.42%	3.45%
Non-interest expense to average assets	3.47%	2.97%	3.34%	3.02%
Efficiency ratio (6)	78.50%	67.49%	77.92%	72.07%
Average interest-earning assets to average interest-bearing liabilities	117.50%	112.85%	116.54%	112.68%
Capital ratios:				
Average equity to average assets	10.09%	8.49%	9.75%	8.45%
Equity to assets, end of period	10.26%	8.71%	10.26%	8.71%
Tier 1 leverage ratio	9.32%	8.40%	9.32%	8.40%
Tier 1 risk-based capital ratio	15.16%	12.20%	15.16%	12.20%
Total risk-based capital ratio	16.43%	13.47%	16.43%	13.47%
Asset quality ratios:				
Nonperforming loans to total loans at end of period (7)	9.17%	9.21%	9.17%	9.21%
Nonperforming assets to average assets (8)	7.09%	8.54%	6.95%	8.52%
Nonperforming assets to total assets at end of period (8)	7.31%	8.69%	7.31%	8.69%
Allowance for loan losses as a percent of loans	2.42%	2.91%	2.42%	2.91%
Allowance for loan losses as a percent of nonperforming loans (7)	27.01%	32.51%	27.01%	32.51%
Texas ratio (9)	61.57%	80.18%	61.57%	80.18%
Total classified assets as a percent of Tier 1 capital (10)	93.31%	134.51%	93.31%	134.51%
Total classified loans as a percent of Tier 1 capital and ALLL	79.89%	107.48%	79.89%	107.48%
Total classified assets as a percent of Tier 1 capital and ALLL (10)	91.41%	126.89%	91.41%	126.89%
Net charge-offs as a percent of average loans	3.03%	2.11%	2.75%	1.87%
Total 90+ days past due as a percent of total loans	7.79%	8.21%	7.79%	8.21%
Office data:				
Number of full service banking offices	34	38	34	38
Number of loan production offices	8	7	8	7
Per share data:				
Basic earnings (loss) (11)	\$	\$ (0.06)	\$ 0.12	\$ 0.04
Diluted earnings (loss) (11)		(0.06)	0.12	0.04
Book value (12)	5.95	5.91	5.95	5.91
Tangible book value (13)	5.94	5.90	5.94	5.90

Notes:

1. Ratios for the three and six month periods are annualized where appropriate
2. Net income (loss) divided by average total assets
3. Net income (loss) 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 percentage of average interest-earning assets
6. Noninterest expense, excluding the amortization of core deposit intangible and prepayment penalties, divided by the sum of net interest income and noninterest income, excluding gains and losses on securities, other than temporary impairment charges, gains and losses on foreclosed assets, and gain on the sale of a retail branch

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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. Classified assets include classified loans, real estate owned and other repossessed assets.
11. Net income (loss) divided by the number of basic or diluted shares outstanding
12. Shareholders' equity divided by number of shares outstanding
13. Shareholders' equity minus core deposit intangible divided by the number of shares outstanding

Table of Contents

Forward Looking Statements

When used in this Form 10-Q the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or 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 June 30, 2012 and December 31, 2011

Total assets decreased \$123.7 million to \$1.9 billion at June 30, 2012, compared to December 31, 2011. Contributing to the change was a decrease in available for sale securities of \$28.6 million and a decrease in net loans of \$129.7 million, which were offset partially by an increase in cash and cash equivalents of \$44.4 million.

In the first six months of 2012, the Company sold approximately \$221.5 million in securities, recognizing \$4.0 million in gains on the sales. The Company also purchased securities with a face value of \$234.5 million to replace the securities sold during the period and to replace loan balances that continue to decline. The Company continues to focus its purchases of securities on those with longer duration characteristics to offset partially the asset sensitivity that the Company's balance sheet continues to exhibit. Maturities, paydowns and the change in the unrealized gain on the portfolio also contributed to the change in the size of the securities portfolio.

Net loans decreased \$129.7 million during the first six months of 2012. The primary source of the decrease was the overall decline in commercial real estate loans and construction loans. Home Savings has, in the current economic environment, made a conscious effort to decrease its exposure in construction loan portfolio and segments of its commercial real estate loan portfolios.

Table of Contents

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

	Allowance For Loan Losses (Dollars in thousands)				
	December 31, 2011	Provision	Recovery	Chargeoff	June 30, 2012
Real Estate Loans					
Permanent					
One-to four-family residential	\$ 7,802	\$ 1,905	\$ 85	\$ (1,809)	\$ 7,983
Multifamily residential	2,689	611	1	(657)	2,644
Nonresidential	16,801	3,633	139	(9,775)	10,798
Land	4,031	(1,515)		(1,820)	696
Total	31,323	4,634	225	(14,061)	22,121
Construction Loans					
One-to four-family residential	4,400	567	52	(2,666)	2,353
Multifamily and nonresidential	93	48		(4)	137
Total	4,493	615	52	(2,670)	2,490
Consumer Loans					
Home Equity	2,026	1,257	253	(251)	3,285
Auto	77	(24)	5	(8)	50
Marine	509	22	1	(79)	453
Recreational vehicle	1,888	(115)	44	(850)	967
Other	76	(6)	151	(171)	50
Total	4,576	1,134	454	(1,359)	4,805
Commercial Loans					
Secured	654	36	26	(55)	661
Unsecured	1,225	525	25	(919)	856
Total	1,879	561	51	(974)	1,517
Total	\$ 42,271	\$ 6,944	\$ 782	\$ (19,064)	\$ 30,933

The allowance for loan losses is a valuation allowance for probable incurred credit losses established through a provision for possible loan losses charged to expense. The allowance for loan losses decreased to \$30.9 million at June 30, 2012, from \$42.3 million at December 31, 2011, a decrease of \$11.3 million. The allowance for loan losses as a percentage of loans was 2.42% at June 30, 2012, compared to 2.79% at December 31, 2011. 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.

The decrease in the allowance for loan losses in the first half of 2012 was primarily a result of the level of allowance assigned to the permanent real estate and construction loan portfolios. At June 30, 2012, the allowance assigned to the permanent real estate portfolio aggregated \$22.1 million, a decrease of \$9.2 million from the previous year. Total permanent outstanding real estate loans were down \$105.1 million when compared to December 31, 2011. This decrease was a result of an increased level of runoff of permanent real estate loans in the first half of

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2012. Included in this decrease are chargeoffs of \$14.1 million in the first six months of 2012.

In the first six months of 2012, the level of the allowance for loan losses decreased \$11.3 million when compared to December 31, 2011. During the six months ended June 30, 2012, the level of net loans charged off exceeded the loan loss provision by approximately \$12.1 million. Timing differences can exist between the period in which an initial provision is recognized and the subsequent period in which the loss is confirmed and the resulting chargeoff recognized. As a result, in any given period, it is possible to have chargeoffs exceed the provision for loan losses in the various loan categories. All major categories had the level of chargeoffs exceed the provision recognized in the first half of 2012. In the first six months of 2012, certain loans were charged off where reserves were established in a previous period.

Table of Contents

Net chargeoffs exceeded the loan loss provision by \$6.1 million in the nonresidential real estate category. This was impacted by the level of outstanding loans in the category, which declined by \$46.9 million since December 31, 2011, thereby reducing the needed level of the allowance for loan losses. The primary reason for this decline in loans was the resolution of one commercial loan relationship consisting of seven loans, which represented the Company's largest classified loan relationship. Five of the seven loans in this relationship were nonresidential loans, the resolution of which resulted in a \$20.8 million decline in principal loan balances. Based on facts and circumstances that occurred in the second quarter of 2012, a chargeoff of \$5.9 million in nonresidential loans was recognized as a part of this resolution. Reserves of \$1.1 million were established on these specific loans in prior periods, resulting in a net loss of \$4.8 million in the second quarter. Of the remaining \$3.9 million in chargeoffs, reserves of \$5.0 million had been established in prior periods.

Net chargeoffs exceeded the loan loss provision by \$3.3 million for land loans for the six months ended June 30, 2012. This was caused by a decline in the principal balance of \$4.1 million in this loan category, resulting in a lower provision being required. Additionally, the historical chargeoff factor has also decreased in this category. Further impacting this loan category were chargeoffs of \$1.8 million, which were substantially reserved at the time of chargeoff.

One-to four-family residential construction loan net chargeoffs exceeded the loan loss provision by \$2.1 million for the six months ended June 30, 2012. Net chargeoffs totaled \$2.6 million. At December 31, 2011, Home Savings had \$2.0 million in specific reserves related to the probable incurred losses in connection with these loans. Additionally, the principal balance of loans in this category declined \$12.9 million during 2012, resulting in a lower provision being required.

Accordingly, as a result of adequate reserves being established in previous periods, a decline in principal balances outstanding and changes in historical loss factors at June 30, 2012, the required level of allowance for loan loss and provision for loan loss has declined.

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

Table of Contents

Impaired Loans
(Dollars in thousands)

	June 30, 2012	December 31, 2011	Change
Real Estate Loans			
Permanent			
One-to four-family residential	\$ 32,644	\$ 30,287	\$ 2,357
Multifamily residential	10,054	6,592	3,462
Nonresidential	48,560	66,503	(17,943)
Land	8,935	11,908	(2,973)
Total	100,193	115,290	(15,097)
Construction Loans			
One-to four-family residential	20,158	30,587	(10,429)
Multifamily and nonresidential			
Total	20,158	30,587	(10,429)
Consumer Loans			
Home Equity	4,953	3,139	1,814
Auto	58	59	(1)
Boat	354	482	(128)
Recreational vehicle	695	47	648
Other	7	7	
Total	6,067	3,734	2,333
Commercial Loans			
Secured	2,082	3,511	(1,429)
Unsecured	207	445	(238)
Total	2,289	3,956	(1,667)
Total Impaired Loans	\$ 128,707	\$ 153,567	\$ (24,860)

The decrease in impaired loans can largely be attributed to the resolution of loans through principal payments, chargeoffs, 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 could also be considered a TDR.

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

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

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

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

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

Reduction of accrued interest.

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

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

Table of Contents

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

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

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

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

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

The change in TDRs for the six months ended June 30, 2012 is as follows:

Troubled Debt Restructurings

	June 30, 2012	December 31, 2011	Change
	<i>(Dollars in thousands)</i>		
Real Estate Loans			
Permanent			
One-to four-family	\$ 16,788	\$ 16,648	\$ 140
Multifamily residential	3,229	3,273	(44)
Nonresidential	2,819	19,666	(16,847)
Land	2,190	3,325	(1,135)
Total	25,026	42,912	(17,886)
Construction Loans			
One-to four-family residential	2,053	2,936	(883)
Multifamily and nonresidential			
Total	2,053	2,936	(883)
Consumer Loans			
Home Equity	4,120	1,895	2,225
Auto	17	21	(4)
Marine			
Recreational vehicle			
Other	7	7	
Total	4,144	1,923	2,221

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Commercial Loans			
Secured	1,522	3,073	(1,551)
Unsecured	35	54	(19)
Total	1,557	3,127	(1,570)
Total Restructured Loans	\$ 32,780	\$ 50,898	(\$ 18,118)

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 \$14.3 million and \$17.8 million at June 30, 2012 and December 31, 2011, respectively. Such loans are considered nonperforming loans. TDR loans that were accruing according to their terms aggregated \$18.5 million and \$33.1 million at June 30, 2012 and December 31, 2011, respectively.

Nonperforming loans consist of nonaccrual loans and loans past due 90 days and still accruing. Nonperforming loans were \$114.5 million, or 9.17% of net loans, at June 30, 2012, compared to \$123.1 million, or 9.00% of net loans, at December 31, 2011.

Table of Contents

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

Nonperforming Loans (Dollars in thousands)			
	June 30, 2012	December 31, 2011	Change
Real Estate Loans			
Permanent			
One-to four-family residential	\$ 26,705	\$ 26,637	\$ 68
Multifamily residential	9,582	5,860	3,722
Nonresidential	43,103	42,902	201
Land	8,316	11,142	(2,826)
Total	87,706	86,541	1,165
Construction Loans			
One-to four-family residential	18,335	27,104	(8,769)
Multifamily and nonresidential			
Total	18,335	27,104	(8,769)
Consumer Loans			
Home Equity	4,944	4,237	707
Auto	101	170	(69)
Marine	342	479	(137)
Recreational vehicle	1,293	1,725	(432)
Other	22	9	13
Total	6,702	6,620	82
Commercial Loans			
Secured	1,350	2,483	(1,133)
Unsecured	436	347	89
Total	1,786	2,830	(1,044)
Total Nonperforming Loans	\$ 114,529	\$ 123,095	\$ (8,566)

During the first six months of 2012, one construction one-to four-family loan relationship aggregating \$2.3 million was settled in bankruptcy court and one land real estate relationship was charged down \$1.8 million to the fair value of the underlying collateral. There were several properties Home Savings took possession of and several loans were satisfied by either selling the underlying collateral or the note itself.

Loans held for sale decreased \$4.3 million, or 33.7%, to \$8.4 million at June 30, 2012, compared to \$12.7 million at December 31, 2011. The change was primarily attributable to the timing of sales during the period. Home Savings continues to sell a portion of newly originated mortgage loans into the secondary market as part of its risk management strategy and anticipates continuing to do so in the future.

Federal Home Loan Bank stock remained at \$26.5 million for June 30, 2012 and December 31, 2011. During the first six months of 2012, the Federal Home Loan Bank paid a cash dividend in lieu of a stock dividend to its member banks.

Table of Contents

Real estate owned and other repossessed assets decreased \$8.7 million, or 26.0%, during the six months ended June 30, 2012, as compared to the year ended December 31, 2011. The following table summarizes the activity in real estate owned and other repossessed assets during the period:

	Real Estate Owned	Repossessed Assets (In thousands)	Total
Balance at December 31, 2011	\$ 32,946	\$ 540	\$ 33,486
Acquisitions	3,700	557	4,257
Transfer to fixed assets	(1,746)		(1,746)
Sales	(9,994)	(644)	(10,638)
Provision for unrealized losses	(581)		(581)
Balance at June 30, 2012	\$ 24,325	\$ 453	\$ 24,778

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

	Balance	Valuation Allowance (In thousands)	Net Balance
Real estate owned			
One-to four-family	\$ 9,564	\$ (645)	\$ 8,919
Multifamily residential	960	(186)	774
Nonresidential	2,008	(149)	1,859
One-to four-family residential construction	16,985	(5,021)	11,964
Land	824	(15)	809
Total real estate owned	30,341	(6,016)	24,325
Repossessed assets			
Auto	65		65
Marine	200		200
Recreational vehicle	188		188
Total repossessed assets	453		453
Total real estate owned and other repossessed assets	\$ 30,794	\$ (6,016)	\$ 24,778

Home Savings has made the decision to move all mortgage, credit and commercial operations/staff from their current location in Beachwood, Ohio to a building in Willoughby, Ohio that is owned by Home Savings. The building in Willoughby, Ohio was acquired in resolution of a nonresidential real estate loan in March 2010, and was held in Home Savings' real estate owned portfolio. It is anticipated that this move will save occupancy expenses once the Willoughby location is fully operational. Approximately 13,000 square-feet of the 45,000 square-feet, four-story building will be used by Home Savings. The remainder of the building's offices may be leased to other business and medical professionals. Management expects this move to be complete in the fall of 2012.

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

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Total deposits decreased \$46.8 million to \$1.5 billion at June 30, 2012, compared to December 31, 2011. The primary cause for the decrease in deposits was due to the overall decline in certificates of deposit due to the maturity of the Company's Step CDs. Primarily in the third quarter of 2008, Home Savings offered a 42-month time deposit product (Step CDs) to its customers in order to maintain adequate levels of liquidity as Home Savings entered into the Bank Order with regulators. While the Step CDs offered a blended rate over the 42-month term consistent with other 42-month certificates of deposit being offered in Home Savings' market at that time, the interest rate paid on Step CDs increases in regular intervals over the life of the deposit, such that in the final six months of the deposit prior to maturity, the rate paid was 6.50%. This product generated approximately \$140.0 million in deposits, \$12.6 million of which were sold in the branch sale announced in the fourth quarter of 2011 and \$126.5 million of which matured in the first quarter of 2012. As these and other certificates of deposit matured, the Company was able to successfully retain most of these deposits in other interest-bearing non-time deposit accounts at substantially lower rates. As of June 30, 2012, Home Savings had no brokered deposits.

Table of Contents

Federal Home Loan Bank advances decreased \$77.5 million during the first six months of 2012, primarily as a result of the paydown of overnight advances and the prepayment of term advances. Home Savings used funds from security sales to prepay \$25.0 million in term advances and offset the prepayment penalties associated with the paydowns of these advances with the gains recognized on these security sales. Proceeds from loan payoffs were used to reduce overnight advances, which accounted for the remainder of the change. Home Savings had approximately \$267.6 million in unused borrowing capacity at the FHLB at June 30, 2012.

Advance payments by borrowers for taxes and insurance decreased \$8.6 million during the first six months of 2012. Remittance of real estate taxes and property insurance made on behalf of customers of Home Savings accounted for \$2.7 million of the decrease. In addition, funds held for payments received on loans sold where servicing was retained by Home Savings decreased \$6.0 million.

During the first six months of 2012, Home Savings received requests for reimbursements from investors for the purpose of making the investor whole on certain loans sold in the secondary market. These loans have certain identified weakness such that, in the opinion of management, a settlement to the investor is most appropriate. For the six months ended June 30, 2012, Home Savings incurred expenses of \$593,000 associated with such repurchases. Home Savings has included in other liabilities a reserve for future make-whole settlements aggregating \$425,000 at June 30, 2012. Management believes this reserve is appropriate given the historical losses incurred and the probability future losses will be deemed certain.

Shareholders' equity increased \$6.9 million to \$195.6 million at June 30, 2012, from \$188.7 million at December 31, 2011. The change occurred primarily due to the net income recognized by the Company in the period as well as the adjustment to other comprehensive income for the valuation of available for sale securities during the period.

Comparison of Operating Results for the Three Months Ended

June 30, 2012 and June 30, 2011

Net Income. United Community recognized net income for the three months ended June 30, 2012, of \$62,000, compared to a net loss of \$1.8 million, or \$(0.06) per diluted share, for the three months ended June 30, 2011. The primary cause of the change was lower provision for loan losses recognized during the second quarter of 2012. Compared with the second quarter of 2011, net interest income decreased \$638,000, the provision for loan losses decreased \$2.0 million and non-interest income increased \$1.6 million. United Community's annualized return on average assets and return on average equity were 0.01% and 0.12%, respectively, for the three months ended June 30, 2012. The annualized return on average assets and return on average equity for the comparable period in 2011 were -0.34% and -3.95%, respectively.

Net Interest Income. Net interest income for the three months ended June 30, 2012 and June 30, 2011, was \$16.4 million and \$17.1 million, respectively. Total interest income decreased \$4.0 million in the second quarter of 2012 compared to the second quarter of 2011, primarily as a result of a decrease of \$302.8 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 13 basis points. Home Savings' construction and segments of its commercial real estate loan portfolios declined as a result of executing its strategic objective of reducing specific concentrations in these portfolios in the current economic environment.

Total interest expense decreased \$3.3 million for the quarter ended June 30, 2012, as compared to the same quarter last year. The change was due primarily to reductions of \$3.1 million in interest paid on deposits. The overall decrease in interest expense was attributable to the maturity of the Step CD's as described above and a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. The average outstanding balance of certificates of deposit declined by \$225.8 million, while non-time deposits increased by \$53.9 million. Also contributing to the change was a reduction of 91 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 45 basis points.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the second quarter of last year. The interest rate spread for the three months ended June 30, 2012, increased to 3.37% compared to 3.19% for the quarter ended June 30, 2011. The net interest margin increased 16 basis points to 3.55% for the three months ended June 30, 2012 compared to 3.39% for the same quarter in 2011.

Table of Contents

	For the Three Months Ended June 30, 2012 vs. 2011		
	Increase (decrease) due to Rate	Volume	Total increase (decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans	\$ (497)	\$ (3,965)	\$ (4,462)
Loans held for sale	(7)	70	63
Investment securities:			
Available for sale	(364)	810	446
FHLB stock	(14)		(14)
Other interest-earning assets	(4)	2	(2)
Total interest-earning assets	\$ (886)	\$ (3,083)	\$ (3,969)
Interest-bearing liabilities:			
Savings accounts	(76)	11	(65)
NOW and money market accounts	(272)	59	(213)
Certificates of deposit	(1,717)	(1,144)	(2,861)
Federal Home Loan Bank advances	(9)	(174)	(183)
Repurchase agreements and other	177	(186)	(9)
Total interest-bearing liabilities	\$ (1,897)	\$ (1,434)	(3,331)
Change in net interest income			\$ (638)

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 decreased to \$6.3 million in the second quarter of 2012, compared to \$8.2 million in the second quarter of 2011. This \$1.9 million decrease in the provision for loan losses is primarily a result of a decrease in the permanent real estate portfolio of \$2.3 million and a decrease in the construction portfolio of \$1.9 million. Both of these decreases are being driven primarily by a decrease in the volume of outstanding permanent real estate loans of \$173.7 million and \$46.7 million in the volume of outstanding construction loans. Further impacting the change was the overall improvement in asset quality during the period.

Noninterest Income. Noninterest income increased in the second quarter of 2012 to \$6.9 million, as compared to noninterest income for the second quarter of 2011 of \$5.3 million. Driving the increase in noninterest income were gains recognized on the sale of available for sale securities. In the second quarter of 2012, Home Savings sold approximately \$195.8 million of securities and subsequently recognized a \$3.6 million gain. These securities were sold in order to realize gains on the securities portfolio in anticipation of increased prepayment speeds which would cause unrealized gains to erode. Further impacting the comparison, Home Savings recognized lower service fees and other charges compared to the second quarter of 2011. The decline was the result of a higher valuation adjustment recognized on deferred Mortgage Servicing rights in the second quarter of 2012 as compared to the same period in 2011.

Noninterest Expense. Noninterest expense was \$17.0 million in the second quarter of 2012, compared to \$15.9 million in the second quarter of 2011. In the second quarter of 2012 salaries and employee benefits were up as a result of the recognition of expenses associated with the Executive Incentive Plan and, to a lesser extent, the reinstatement of a matching contribution to the 401(k) plan. Also contributing to the increase were expenses incurred due to the prepayment of FHLB term advances. In the second quarter of 2012, Home Savings paid in full \$25.0 million in term advances. This was done to utilize excess cash and reduce interest expenses going forward. The change in noninterest expense for the second quarter of 2012 as compared to the second quarter of 2011 was also affected by increased professional fees incurred by the Company. Professional fees, including legal and other consultants, were higher in the second quarter of 2012 due to the engagement of professionals hired to assist management in resolving nonperforming assets of the Bank. These changes were offset by a reduction in real estate owned expenses and other expenses. Real estate owned expenses were lower in the second quarter of 2012 when compared to the same quarter in 2011 because of lower real estate tax incurred as well as fewer expenses incurred to maintain properties in saleable condition. Other expenses were lower as the Bank recognized fewer costs associated with the acceleration of negative escrow expenses during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011.

Comparison of Operating Results for the Six Months Ended

June 30, 2012 and June 30, 2011

Net Income. United Community recognized net income for the six months ended June 30, 2012, of \$3.9 million, or \$0.12 per diluted share, compared to net income of \$1.2 million, or \$0.04 per diluted share, for the six months ended June 30, 2011. The primary cause of the change was the lower provision for loan losses recognized during the first six months of 2012. Compared with the first six months of 2011, net interest income decreased \$2.4 million, the provision for loan losses decreased \$3.5 million and non-interest income increased \$2.8 million. United Community's annualized return on average assets and return on average equity were 0.38% and 3.95%, respectively, for the six months ended June 30, 2012. The annualized return on average assets and return on average equity for the comparable period in 2011 were 0.11% and 1.29%, respectively.

Table of Contents

Net Interest Income. Net interest income for the six months ended June 30, 2012 and June 30, 2011, was \$32.3 million and \$34.7 million, respectively. Total interest income decreased \$8.1 million in the first six months of 2012 compared to the first six months of 2011, primarily as a result of a decrease of \$288.2 million in the average balance of outstanding loans. United Community also experienced a decrease in the yield on net loans of 22 basis points. Home Savings' construction and segments of its commercial real estate loan portfolios declined as a result of executing its strategic objective of reducing specific concentrations in these portfolios in the current economic environment.

Total interest expense decreased \$5.7 million for the six months ended June 30, 2012, as compared to the same period last year. The change was due primarily to reductions of \$5.4 million in interest paid on deposits. The overall decrease in interest expense was attributable to the maturity of the Step CDs as described above and a shift in deposit balances from certificates of deposit to relatively less expensive non-time deposits. The average outstanding balance of certificates of deposit declined by \$205.4 million, while non-time deposits increased by \$49.7 million. Also contributing to the change was a reduction of 70 basis points in the cost of certificates of deposit, as well as a decrease in the cost of non-time deposits of 18 basis points.

The following table shows the impact of interest rate and outstanding balance (volume) changes compared to the first six months of last year. The interest rate spread for the six months ended June 30, 2012 and 2011, was 3.24%. The net interest margin decreased three basis points to 3.42% for the six months ended June 30, 2012 compared to 3.45% for the first six months of 2011.

	For the Six Months Ended June 30, 2012 vs. 2011		
	Increase (decrease) due to Rate	Volume	Total increase (decrease)
	(Dollars in thousands)		
Interest-earning assets:			
Loans	\$ (1,747)	\$ (7,569)	\$ (9,316)
Loans held for sale	(5)	102	97
Investment securities:			
Available for sale	(743)	1,836	1,093
FHLB stock	(14)		(14)
Other interest-earning assets	3	(2)	1
Total interest-earning assets	\$ (2,506)	\$ (5,633)	\$ (8,139)
Interest-bearing liabilities:			
Savings accounts	(175)	26	(149)
NOW and money market accounts	(482)	102	(380)
Certificates of deposit	(2,742)	(2,167)	(4,909)
Federal Home Loan Bank advances	(236)	(40)	(276)
Repurchase agreements and other	(2,823)	2,811	(12)
Total interest-bearing liabilities	\$ (6,458)	\$ 732	(5,726)
Change in net interest income			\$ (2,413)

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 decreased to \$6.9 million in the first six months of 2012, compared to \$10.4 million in the first six months of 2011. This \$3.5 million decrease in the provision for loan losses is primarily a result of a decrease in the permanent real estate portfolio of \$5.4 million and a decrease in the construction portfolio of \$936,000. Both of these decreases are being driven primarily by a decrease in the volume of outstanding permanent real estate loans of \$173.7 million and \$46.7 million in the volume of outstanding construction loans.

Noninterest Income. Noninterest income increased in the first six months of 2012 to \$12.0 million, as compared to the first six months of 2011 of \$9.3 million. Driving the increase in noninterest income were gains recognized on the sale of available for sale

Table of Contents

securities. In the first six months of 2012, Home Savings sold securities totaling approximately \$225.5 million and subsequently recognized a \$4.0 million gain. These securities were sold in order to realize gains on the securities portfolio in anticipation of increased prepayment speeds which would cause unrealized gains to erode. Fees generated on nondeposit investments increased \$385,000 during the first six months of 2012, as compared to the same period last year. The change was driven by volume of activity in 2012. Some Home Savings customers that had funds deposited in Step CDs that matured in the first quarter of 2012 were retained and their deposits were invested in various mutual funds and insurance annuities offered through the Home Savings Investments Division's partnership with Primevest. Finally, lower losses incurred on real estate owned and other repossessed assets during the six months ended June 30, 2012, as compared to the same period last year, were the result of the need to mark fewer properties down to fair market value as real estate values have stabilized.

Noninterest Expense. Noninterest expense was \$33.5 million in the first six months of 2012, compared to \$32.4 million in the first six months of 2011. In the first half of 2012 salaries and employee benefits were up as a result of the recognition of expenses associated with the Executive Incentive Plan, a restricted stock grant and, to a lesser extent, the reinstatement of a matching contribution to the 401(k) plan in 2012. Also contributing to the increase were expenses incurred due to the prepayment of FHLB term advances. In the second quarter of 2012, Home Savings paid in full \$25.0 million in term advances. This was done to utilize excess cash and reduce interest expenses going forward. Professional fees, including legal and other consultants, were higher during the first six months of 2012 due to the engagement of professionals hired to assist management in resolving nonperforming assets of Home Savings. These changes were offset by a reduction in other expenses, which include lower expenses incurred to positively resolve problem loans.

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

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

	Three Months Ended June 30,					
	Average Outstanding Balance	2012 Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	2011 Interest Earned/ Paid	Yield/ Cost
<i>(Dollars in thousands)</i>						
Interest-earning assets:						
Net loans (1)	\$ 1,298,838	\$ 16,959	5.22%	\$ 1,601,672	\$ 21,421	5.35%
Net loans held for sale	11,293	104	3.68%	3,401	41	4.82%
Investment securities:						
Available for sale	483,916	3,540	2.93%	351,029	3,094	3.53%
Federal Home Loan Bank stock	26,464	280	4.23%	26,464	294	4.44%
Other interest-earning assets	32,035	11	0.14%	29,021	13	0.18%
Total interest-earning assets	1,852,546	20,894	4.51%	2,011,587	24,863	4.94%
Noninterest-earning assets	113,557			129,300		
Total assets	\$ 1,966,103			\$ 2,140,887		
Interest-bearing liabilities:						
NOW and money market accounts	\$ 472,160	\$ 408	0.35%	\$ 434,973	\$ 621	0.57%
Savings accounts	258,682	82	0.13%	241,968	147	0.24%
Certificates of deposit	662,890	2,452	1.48%	888,732	5,313	2.39%
Federal Home Loan Bank advances	92,337	613	2.66%	118,558	796	2.69%
Repurchase agreements and other	90,611	919	4.06%	98,345	928	3.77%
Total interest-bearing liabilities	1,576,680	4,474	1.14%	1,782,576	7,805	1.75%
Noninterest-bearing liabilities	191,011			176,545		
Total liabilities	1,767,691			1,959,121		
Equity	198,412			181,766		
Total liabilities and equity	\$ 1,966,103			\$ 2,140,887		
Net interest income and interest rate spread		\$ 16,420	3.37%		\$ 17,058	3.19%
Net interest margin			3.55%			3.39%
Average interest-earning assets to average interest-bearing liabilities			117.50%			112.85%

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

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

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

	Six Months Ended June 30,					
	Average Outstanding Balance	2012 Interest Earned/ Paid	Yield/ Cost	Average Outstanding Balance	2011 Interest Earned/ Paid	Yield/ Cost
	<i>(Dollars in thousands)</i>					
Interest-earning assets:						
Net loans (1)	\$ 1,328,682	\$ 34,615	5.21%	\$ 1,616,856	\$ 43,931	5.43%
Net loans held for sale	10,449	204	3.90%	5,189	107	4.12%
Investment securities:						
Available for sale	489,854	7,034	2.87%	339,733	5,941	3.50%
Federal Home Loan Bank stock	26,464	580	4.38%	26,464	594	4.49%
Other interest-earning assets	34,069	23	0.14%	26,933	22	0.16%
Total interest-earning assets	1,889,518	42,456	4.49%	2,015,175	50,595	5.02%
Noninterest-earning assets	115,914			129,590		
Total assets	\$ 2,005,432			\$ 2,144,765		
Interest-bearing liabilities:						
NOW and money market accounts	\$ 462,307	\$ 876	0.38%	\$ 430,361	\$ 1,256	0.58%
Savings accounts	251,944	165	0.13%	234,165	314	0.27%
Certificates of deposit	690,888	5,933	1.72%	896,336	10,842	2.42%
Federal Home Loan Bank advances	125,572	1,345	2.14%	128,848	1,621	2.52%
Repurchase agreements and other	90,613	1,838	4.06%	98,763	1,850	3.75%
Total interest-bearing liabilities	1,621,324	10,157	1.25%	1,788,473	15,883	1.78%
Noninterest-bearing liabilities	188,634			175,105		
Total liabilities	1,809,958			1,963,578		
Equity	195,474			181,187		
Total liabilities and equity	\$ 2,005,432			\$ 2,144,765		
Net interest income and interest rate spread		\$ 32,299	3.24%		\$ 34,712	3.24%
Net interest margin			3.42%			3.45%
Average interest-earning assets to average interest-bearing liabilities			116.54%			112.68%

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

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

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

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

Home Savings uses an NPV and earnings simulation model prepared internally as its primary method for identifying and managing its interest rate risk profile. The model is based on actual cash flows and repricing characteristics for all financial instruments and incorporates market-based assumptions regarding the impact of changing interest rates on future volumes and the prepayment rate of applicable financial instruments. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates also are incorporated into the model. These assumptions inherently are uncertain and, as a result, the model cannot 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 the quarter ended June 30, 2012, the percentage changes fall within the policy limits set by the Board of Directors of Home Savings in regard to the minimum NPV ratio and the maximum change in interest income that the Home Savings Board deems advisable in the event of various changes in interest rates. See the table below for Board adopted policy limits.

	Period Ended June 30, 2012				Next 12 months net interest income		
	NPV as % of portfolio value of assets				(Dollars in thousands)		
		Internal	Change	Internal		Internal	
Change in rates (Basis points)	NPV	policy	in	policy		policy	
	Ratio	limitations	%	limitations	\$ Change	limitations	% Change
400	13.26%	6.00%	2.10%	25.00%	\$ 7,837	-20.00%	14.16%
300	13.44%	6.00%	2.28%	25.00%	6,638	-15.00%	11.97%
200	13.33%	7.00%	2.17%	25.00%	4,757	-10.00%	8.58%
100	12.74%	7.00%	1.58%	25.00%	2,393	-5.00%	4.32%
Static	11.16%	8.00%	%	25.00%		%	%

Home Savings' interest rate risk profile as of June 30, 2012, as measured by the NPV methodology described above changed from that of December 31, 2011, in that Home Savings was markedly less sensitive. This change was primarily the result of the flattening of the yield curve and a reduction in the most sensitive assets and liabilities on the balance sheet.

Table of Contents

Year Ended December 31, 2011							
NPV as % of portfolio value of assets				Next 12 months net interest income (Dollars in thousands)			
Change in rates (Basis points)	NPV Ratio	Internal policy limitations	Change in %	Internal policy limitations on NPV Change	\$ Change	Internal policy limitations	% Change
400	8.98%	6.00%	-0.37%	25.00%	\$ 2,321	-20.00%	3.88%
300	9.65%	6.00%	0.30%	25.00%	2,702	-15.00%	4.51%
200	10.16%	7.00%	0.81%	25.00%	2,322	-10.00%	3.88%
100	10.28%	7.00%	0.93%	25.00%	1,333	-5.00%	2.23%
Static	9.35%	7.00%	%	%		%	%

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

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

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

ITEM 4. Controls and Procedures

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

Table of Contents

PART II. OTHER INFORMATION

UNITED COMMUNITY FINANCIAL CORP.

ITEM 1 - Legal Proceedings

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

ITEM 1A - Risk Factors

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

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

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

ITEM 5 - Other Information

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

ITEM 6 - Exhibits

Exhibits

Exhibit

Number	Description
3.1	Articles of Incorporation
3.2	Amended Code of Regulations
10.1	2012 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 June 30, 2012, formatted in XBRL (Extensible Business reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated

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Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Changes in Stockholder's Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Unaudited Consolidated Financial Statements.

Table of Contents

UNITED COMMUNITY FINANCIAL CORP.

SIGNATURES

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

UNITED COMMUNITY FINANCIAL CORP.

Date: August 14, 2012

/S/ Patrick W. Bevac
Patrick W. Bevac

President and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2012

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

Treasurer and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

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 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 June 4, 2012 with the SEC, film number 12885641, Exhibit 10.1.